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Financial Analysis of Dalian Wanda Group

Finanční analýza společnosti Dalian Wanda Group

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1. Introduction
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3. Characterization of Dalian Wanda Group
4. Financial Analysis of Dalian Wanda Group
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilisation of Result from the Bachelor Thesis
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References:

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The declaration

"I hereby declare that I have elaborated the entire thesis including annexes myself.

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Content

1. Introduction

The topic of this thesis is financial analysis of Dalian Wanda Group.

Financial analysis is a very important process for managers and investors to evaluate a selected company's financial position. If we carry it out exactly, we can take favorable actions largely about the selected company.

The objective of this thesis is to analyze the financial position of Wanda Group during selected years, especially the financial performance of Wanda Commercial Properties. Wanda Group is one of the largest conglomerates in China. As one of its core subsidiaries, Wanda Commercial Properties is the world's largest commercial properties enterprise. However, because of some special economic situation in China, properties enterprises had staggered from 2011 to 2015. Wanda Commercial Properties still developed better than most of other properties enterprises. Through analyzing its financial position, we can learn more about how this company could stand out from the rest.

This thesis includes five chapters. In Chapter 1, there is an introduction about the whole thesis. This part mentions the topic and objective of this thesis and makes a brief introduction about each chapter.

Chapter 2 describes methodologies of financial analysis. We will discuss purposes of financial analysis and introduce three basic financial statements. Then, we can use some financial methods to analyze the data which we get from financial statements. There are three main methods which are common-size analysis, financial ratios analysis, and DuPont analysis. It is a theoretical-methodological part.

In Chapter 3, there is an introduction about characterization of Dalian Wanda Group. We can know some basic information about Wanda Group, such as its overview, major events, industries, and so on.

In Chapter 4, we will use methods of Chapter 2 to analyze the financial performance of Wanda Commercial by its financial statements and make some partial results about the operating conditions of it during selected periods.

In Chapter 5, we will summarize main work of the whole thesis.

2. Description of the financial analysis methodologies

In this chapter, we will make financial analysis which could give us a more overall look at a company's financial health theoretically and use these financial methods which combined with practical data to analyze the company's financial condition in Chapter 4.

Main sources of this chapter are from Keown et al. (2004).

2.1 Definition and purposes of financial analysis

The financial analysis is a process which includes choosing, assessing, and interpreting financial data, along with other relative information, in order to work out an assessment of the company's present and future financial condition and performance.

In some ways, it is similar to accounting. But they have a significant difference. That is, financial analysts use accounting information differently than accountants do. For accountants, they focus on using it to prepare financial statements according to generally accepted accounting principles. By contrast, financial analysts use it to assess a company's performances and predict its future financial condition. The analysts take advantage of ratios to help us figure out key financial relationship that might not easily be recognizable.

Financial analysis is not just a tool for financial managers, but also can be used effectively by investors, lenders, suppliers, employees, and customers.

Within the company, managers use financial analysis to:

- Identify deficiencies in the firm's performance and take corrective action.
- Evaluate employee performance and determine incentive compensation.
- Compare the financial performance of the firm's different divisions.
- Prepare, at both the firm and division levels, financial projections, such as those associated with the launch of a new product.
- Understand financial condition of a major supplier or customers.
- Understand financial performance of competitors.

Outside the company, financial analysis can be used by:

- Lenders to decide whether or not to make a loan to the company.

- Credit-rating agencies to determine the firm's creditworthiness.
- Investors to decide whether or not to invest in a company.
- Major suppliers to decide whether or not to grant credit terms to a company.

In a word, financial analysis is a tool which can help a wide group of individuals for many of purposes.

2.2 Financial statements

A financial statement (or financial report) is a formal record of the financial activities and position of a business, person, or other entity. It can provide the fundamental information that we use to analyze a company's financial condition. There are three basic accounting statements that summarize information about a firm. They are: the balance sheet, the income statement, the cash flow statement.

2.2.1 Balance sheet

Balance sheet (or statement of financial position), which summarizes the *assets* owned by a firm, the value of these *assets* and the mix of financing used to finance these *assets* at a given point in time. Among the three basic financial statements, the balance sheet is the only static statement which reveals a firm's financial position in a single point.

The balance sheet adheres to the following formula:

$$Total\ assets = Total\ liabilities(debt) + Owners'\ equity \qquad (2.1)$$

it means two sides of this equation must be balanced. And this formula fully embodies in two sides of the balance sheet.

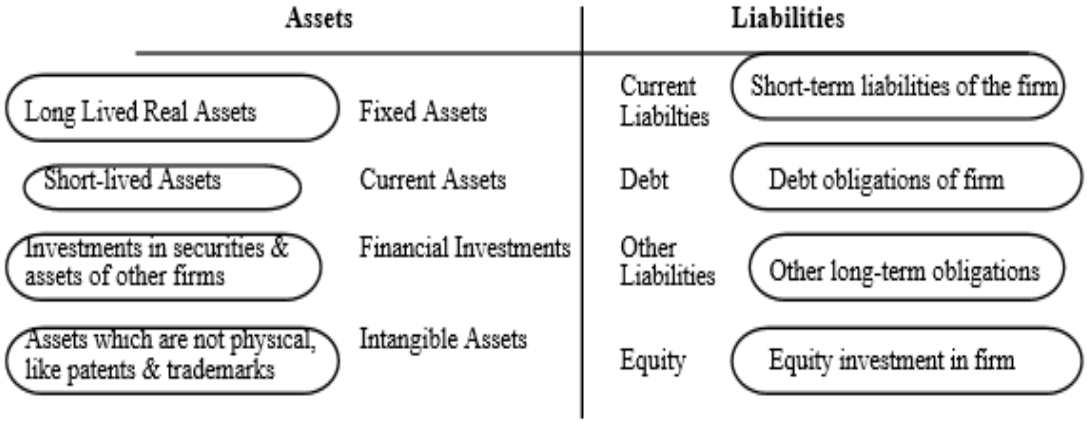
The left side of the balance sheet contains all the *assets* which can be divided into several types, such as fixed *assets* (which can be used longer than one year. e.g. buildings) and current *assets* (which has relatively short life. e.g. cash and cash equivalents), or tangible *assets* and intangible *assets*, and so on. The company's investing activities, operating activities or financing activities generate these *assets.*

The right side contains two parts. The one is *liabilities (*or *debt)*, the other one is *owner's*

equity. They show above mentioned equation: how the company finances its *assets. Debt* is money that the company borrowed from somewhere and must be paid back. It is mainly divided into current (or short-term) *liabilities* (which must be repaid within 12 months. e.g. account payable) and long-term *liabilities* (which has been borrowed longer than one year. e.g. loans from banks). And *equity* is the capital which come from owners' or shareholders' investments (e.g. common and preferred shares).

Its structure is shown in Chart 2.1.

Chart 2.1 Structure of the balance sheet



Source: Understanding financial statements

Available on: http://people.stern.nyu.edu/adamodar/pdfiles/valn2ed/ch3.pdf

2.2.2 Income statement

An income statement, or profit and loss statement, measures the amount of profits generated by a firm over a given period and shows how to distribute these profits.

The income statement is divided into two parts: operating and non-operating. The operating part of the income statement is tied to company's day-to-day operation. For example, if a company produces clothes, it should make profits through the sale. And the *revenue* and *expense* information about activities that are not directly tied to a company's regular operations will be disclosed in non-operating portion. Still take the same company for example, if the

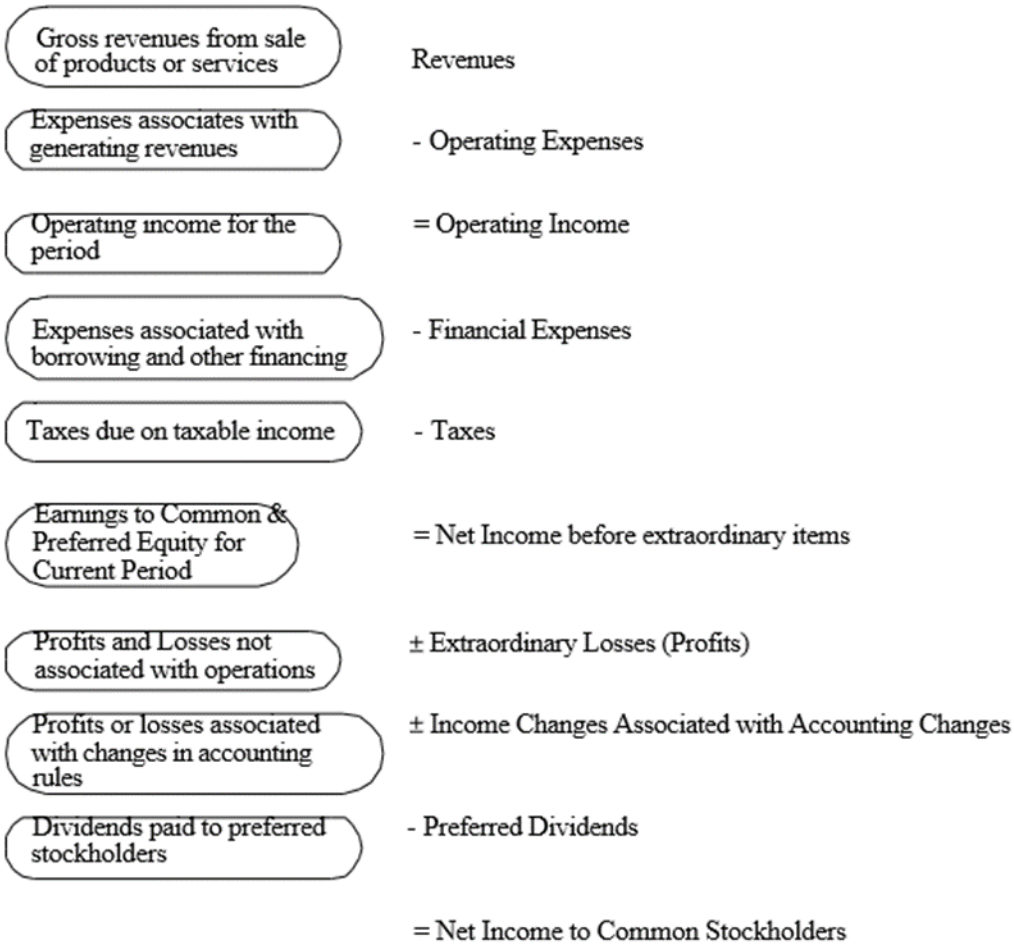
clothes company sells investment securities, the money from the sale is listed in the non-operating items portion.

In its most basic form, an income statement can be expressed as follows:

$$Revenues - Expenses = Profits \tag{2.2}$$

the income statement can show us the profitability of the business. And it reports financial information related to five broad areas of business activity: *revenue*, cost of goods sold, operating *expenses*, financing costs, and tax *expenses*. Its structure is shown in Chart 2.2.

Chart 2.2 Structure of the income statement



Source: Understanding financial statements

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Revenue (or sales) and cost of goods sold are easy to understand. Operating *expenses* are *expenses* related to marketing and distributing the product or service, and administering the business. In other words, they are costs associated with generating operating *revenues*. Operating *revenues* are from sale of products, goods, and services. Financing costs refer to, such as interest paid, coupons paid (if bonds are issued), and so on. Tax *expenses* mean the amount of taxes owed based on a firm's taxable income. It is calculated by applying corporate tax rate and a company's tax is equal to multiply earning before tax by tax rate. The result is earning after tax.

The income statement is a dynamic statement which is different from the balance sheet. It

can show funds movement of a company over a specific period, not cover one moment in time. And the income statement and the balance sheet are both based on accrual basis of accounting. That means, for example, *revenues* are recorded on the income statement when they are earned rather than when the cash is received. But in the cash flow statement, there is another method which is called cash basis of accounting. It means once the cash of company is received or paid out, *revenues* or *expenses* must be recognized on the statement of cash flows. And we have to pay attention to that: profit is not the same as the cash flow

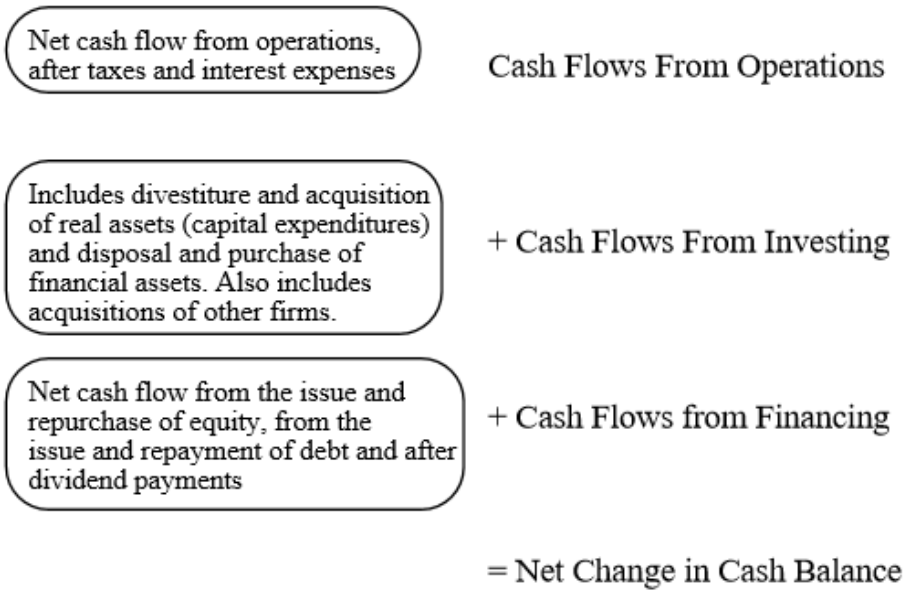
2.2.3 Statement of cash flows

Statement of cash flows, or cash flow statement, measures cash flows of the company from operating, investing and financing activities, during a period. It can show how changes of the balance sheet and income statement affect a company's cash and cash equivalents.

Cash flow is the net amount of cash and cash-equivalents moving into and out of a business. It includes inflows and outflows, and they can be either positive or negative. Once the company has paid out its operating expenses and made all the investments, the rest of cash flows are free to distribute to the company's creditors. Therefore, the term of these cash flows is free cash flows. If the free cash flows are negative, the creditors have to bear the losses. Hence, the amount of the cash flows from assets must equal the amount of these from financing. But the plus-minus sign of the two kinds of cash flows is opposite.

Its structure is shown in Chart 2.3.

Chart 2.3 Structure of the cash flow statement



Source: Understanding financial statements

Available on: http://people.stern.nyu.edu/adamodar/pdfiles/valn2ed/ch3.pdf

As the chart above, total cash flow is equal to cash flow from operating activities plus cash flow from investing activities plus cash flow from financing activities. And changes of these cash flows will fully embody on the cash flow statement of the company.

All the above-mentioned statements are significant source of information for most managers, investors, and analysts. Next, we will continue to study financial analysis.

2.3 **Three methods of financial analysis**

When it comes to the methods of financial analysis, there are three methods we can imagine. The first is common-size analysis, the second is financial ratios analysis, and the third is DuPont analysis.

2.3.1 Common-size analysis

A common size statement regards one of sums of financial statements as one hundred percent, then converts the figure of the other component projects into the percentage of the total.

Therefore, we can know the importance of this item. In the balance sheet, the common size statement defines all items as a percentage of assets. In the income statement, it defines all items as a percentage of sales. This kind of financial statements can help us identify the trends and major differences.

There are two types of common-size analysis. One is vertical common-size analysis, the other is horizontal common-size analysis.

2.3.1.1 Vertical common-size analysis

Vertical common-size analysis is an analysis of the changes in the proportions of selected benchmarks (total revenues, total assets, total liabilities etc.). Analysts can compare these proportions across the time and across the company's industry through this analysis. It is the most common one in common-size analysis.

In vertical analysis balance sheet, the total number of assets is supposed to be 100% and all individual assets (or groups of assets if condensed form balance sheet is used) are shown as a percentage of total assets. The current liabilities, long term debts and equities are shown as a percentage of the total liabilities and stockholders' equity. While preparing a vertical analysis of income statement, total revenue is supposed to be 100% and all other figures (cost of goods sold, gross profit, operating expenses, net income etc.) are shown as a percentage of the total. The percentage amount calculated is shown along with the absolute currency amounts.

2.3.1.2 Horizontal common-size analysis

Horizontal analysis, also known as trend analysis, is an analysis of the evolution of financial statements data over the time or their changes with respect to a given period as a benchmark. It is useful for identifying trends and growth in accounts over time. The statements for two or more periods are used in horizontal analysis. The earliest period is usually used as the base period and the items on the statements for all later periods are compared with items on the statements of the base period. The changes are generally shown both in dollars and percentage.

Each account in the horizontal common-size analysis is compared to the same account in the base year. However, each account in a vertical common-size analysis is restated each year as a proportion of the reference account (e.g. revenues and total assets).

2.3.2 Financial ratios analysis

Next, the author wants to restate the accounting data in relative terms, or we can call financial ratios.

A ratio when it is expressed in numbers or amounts is a relationship between two things. In finance, the use of these ratios is more specific. They are used to standardize financial information so that we can make an assessment. Otherwise, it is difficult to evaluate the financial statements of the company at different periods, not to mention comparing this company to others.

To be specific, financial ratios are very important factors to estimate a company's financial performance, and they can help us realize some financial strengths and weaknesses of a selected company. Also, these ratios can provide two important ways for us to carry out meaningful comparisons of company's financial data. Firstly, we can analyze trends of the company by checking the ratios across time. Secondly, we can make a comparison between selected company and its competitors.

This part will simply introduce several types of ratios. They are: liquidity ratios, profitability ratios, assets management (or activity) ratios, and leverage (or debt) ratios. And we could take advantage of these ratios to examine key financial information about the company's operations.

2.3.2.1 Profitability ratios

Profitability ratios measure the ability to generate profit from invested capital in the form of return during a period. Generally, the profitability ratios of a company are higher, the competitive position of the company is better. There are four basic ratios below:

The first is *operating profit margin (OPM)*. It is an extremely important variable in

understanding a company's operating profitability. Margins are used to compare components of income with *revenues*. The *operating profit margin* indicates how well the *revenues* are being generated and operating costs controlled. It is the ratio of *operating profit* (i.e. *EBIT*, or earnings before interests and taxes. That is the accounting measure of operating income from the income statement) to *revenues*. The formula is shown below:

$$Operating\ profit\ margin = \frac{OP}{Revenues} \tag{2.3}$$

The second is *net profit margin (NPM)*. It measures *net profit* per one unit of *revenues*. *Net profit* is equal to *revenues* minus costs. The equation is that *net profit margin* equals *net profit* (i.e. *EAT*, or earnings after taxes) divide by *revenues*. It is shown below:

$$Net\ profit\ margin = \frac{EAT}{Revenues} \tag{2.4}$$

in general, *net profit margin* is used for internal comparison. Because, it is complex to exactly compare the *net profit ratio* for different entities. Individual enterprises' operating and financing activities vary so much that different entities must have different kinds of expenditure, so that comparison of one with another doesn't make sense.

The third is *return on assets (ROA)*. It is the ratio of *net income* (or *EBIT*) to *total assets* and indicates the firm's *net profit* generated per one unit invested in total *assets*. In other words, the *return on assets* of a firm measures its operating efficiency in generating profits from its *assets*, prior to the effects of financing. The equation is shown below:

$$Return\ on\ assets = \frac{EBIT}{Assets} \tag{2.5}$$

the higher this ratio, the better usage of corporate *assets.* This shows that this firm takes good results by increasing income and saving money for other usage. For strategic management, the management of bank usually pay more attention to this indicator.

The last is *return on equity (ROE)*. It is the ratio of *net income* to shareholders' *equity* and it measures a firm's efficiency at generating profits from every unit of shareholder's *equity*. The formula is shown below:

$$Return\ on\ equity = \frac{EAT}{Equity} \tag{2.6}$$

while the *return on assets* measures the profitability of the overall firm, the *return on equity*

examines profitability from the perspective of the *equity* investor by relating profits to the *equity* investors. In DuPont analysis, we will study *ROE* in detail.

2.3.2.2 Liquidity ratios

Liquidity ratios are very significant indicators which can be used to analyze a company's financial condition. And they measure the company's ability to fulfill its immediate and short-term obligations. Liquidity ratios include three basic ratios:

The first is *current ratio*. It compares *short-term assets* (such as *cash*) with the *liabilities(debt)* that is payable within a year. In general, the *current ratio* is higher, the ability of the company fulfilling short-term obligation is stronger.

The equation is that *current ratio* equals *current assets* divide by *current liabilities*. It is shown below:

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities} \tag{2.7}$$

we can find the data of *current assets* and *current liabilities* in the balance sheet. There are three kinds of primary *current assets*. They are: *cash*, *accounts receivable*, and *inventories.* If we want to make our result of liquidity more restrictive, we could exclude *inventories* which are the least liquid of the *current assets* in the calculation. Because, some of *inventories* may be unsalable.

The second is *quick (or acid-test) ratio*. It compares quick assets with *current liabilities (or debt).* Like we mentioned above. *Inventories* are the least liquid of the *current assets.* Therefore, the *quick assets* are *current assets* minus *inventories*. That means the quick assets equal *cash* plus *accounts receivable*. And, *quick ratio* is equal to *quick assets* divide by *current liabilities*. The equation is shown below:

$$Quick\ ratio = \frac{Current\ assets - inventories}{Current\ liabilities} \tag{2.8}$$

The third is *cash ratio*. It measures company's liquidity by comparing *cash and cash equivalent* with *current liabilities.* In other words, it is the ratio of quick assets which deduct *accounts receivable* and compares to *current liabilities*, which best reflects the ability of the company to pay back *current liabilities* directly. The formula is shown below:

$$Cash\ ratio=\frac{Cash+marketable\ \ securities}{Current\ \ liabilities} \quad (2.9)$$

marketable security mean that any equity or debt instruments can be converted into *cash* or exchanged easily. Generally, *cash ratio* should be over than 20%. But if it is too high, that means the *current assets* of this company can not be taken full advantage. Therefore, the company may take more opportunity costs.

2.3.2.3 Assets management ratios

Assets management (or activity) ratios evaluate the efficiency of a firm to use its assets, and that is an indicator to measure the company's asset turnover. It compares a company's investments in a particular asset with the revenues that the assets are generating. There are four basic types of activity ratios.

The first is *average collection period (ACP)*. It is used to evaluate the company's ability to convert *accounts receivable* and *inventory* into cash on a timely basis. The conversion of *accounts receivable* into cash may be measured by calculating how long it spends in collecting the firm's receivables. The equation is shown below:

$$ACP=\frac{Accounts\ \ receivabe}{Daily\ \ credit\ \ sales} \quad (2.10)$$

because the *daily credit sales* are average day's revenue (i.e. *revenues/360* or *revenues/365*. Below we will use 360 as day-count conversions). There is another common equation which will be used in Chapter 4:

$$ACP=\frac{Accounts\ \ receivable}{Revenues}\times 360 \quad (2.11)$$

and management usually want to collect receivable sooner than later, which means reducing collection period is more beneficial to the firm.

The second is *accounts receivable turnover (ART)*. It indicates how rapidly the firm is collecting its credit, as measured by how many times its *accounts receivable* are collected or "rolled over" during the year. The equation is that *average receivable turnover* is equal to *revenues* divide by *accounts receivable*. It is shown below:

$$ART=\frac{Revenues}{Accounts\ \ receivable} \quad (2.12)$$

as a general rule, the higher of this ratio, the better of this company's ability to manage receivables, and the liquidity of this company's assets is stronger.

The third is *inventory turnover (IT)*. It measures the number of times *inventory* is sold or used in a period such as a year. It can reflect the ability of a company to manage inventories. In general, the *inventory turnover* is faster, the liquidity of the company is stronger, so the inventory can be converted to cash or receivables faster. The formula is that *inventory turnover ratio* equals *costs of goods sold* divide by *average inventory*. It is shown below:

$$IT=\frac{Costs\ of\ goods\ sold}{Average\ inventory} \tag{2.13}$$

because the *average inventory* is *inventory* divides by *360*. There is another common equation which will be used in Chapter 4:

$$IT=\frac{Costs\ of\ good\ sold}{Inventory}\times 360 \tag{2.14}$$

The last is *total assets turnover (TAT)*. It can be used to tell how successfully the company is using its *assets* to generate *revenues*. It is the ratio of *total revenues* to *total assets*. The result is a multiplier of the *revenues* that are generated for the investment in *total assets*. It is shown below:

$$TAT=\frac{Revenues}{Total\ assets} \tag{2.15}$$

Managers will ask for higher turnover ratio rather than lower. Since, if the turnover ratio of this company is high, which indicates that capital turnover of this company is fast and the sales of the company is strong.

2.3.2.4 Solvency ratios

Solvency (or leverage) ratios are used to measure company's ability to fulfill its long-term obligations. We all know that too much debt is dangerous for a company and its shareholders. And debt levels which are uncontrolled could result in credit downgrades or worse. However, if a company's debt is too few, it will also lead to some questions. In a word, debt levels of a company should be considered with many factors, such as assets, equity, interests paid and so on.

There are two types of *solvency ratios*: component percentages and coverage ratios. Component percentages mainly compare the company's *debt* with either its total *assets* or its shareholders' *equity.* Therefore, they include *debt ratio* and *debt-to-equity ratio*. *Debt ratio* is the ratio of *total debt* to *total assets*. It is shown in Formula (2.16). *Debt-to-equity* ratio is equal to *total debt* divides by *equity.* It is shown in Formula (2.17).

$$Debt\ ratio = \frac{Total\ \ debt}{Total\ \ assets} \tag{2.16}$$

$$Debt\text{-}to\text{-}equity\ ratio = \frac{Total\ \ debt}{Equity} \tag{2.17}$$

Coverage ratios show the ability of a company to meet the obligations which are due to debt financing, such as *interest paid,* principle repayment, and lease payments. The most common one is *interest coverage.* It tells the extent to which the company's *operating profit* (or *EBIT*) can fulfill current *interest paid.* The equation is shown below:

$$Interest\ coverage = \frac{EBIT}{Interest\ \ paid} \tag{2.18}$$

the higher the *interest coverage* ratio, the more secure is the company's ability to make interest payments from operating profit.

2.3.3 DuPont analysis

The third way can be used to measure a company's financial performance is DuPont analysis.

It is a method which use the relationship between some significant financial ratios to comprehensively analyze a firm's financial condition. To be specific, from the financial point of view, it is a classic method used to evaluate a company's profitability and *return on equity (ROE)*. The main idea of this method is to decompose the *return on equity* of the company into a number of component ratios' products. There are three component ratios in the decomposition of *ROE* ratio. They are *net profit margin*, *total assets turnover,* and *financial leverage*. Because *net profit margin* is *net income* over *revenues*, and *total assets turnover* is *revenues* over *total assets*. The formula is shown below:

$$ROE = \frac{EAT}{Equity}$$
$$= \frac{Net\ income}{Total\ assets} \times \frac{Total\ assets}{Equity}$$
$$= \frac{EAT}{Revenues} \times \frac{Revenues}{Total\ assets} \times \frac{Total\ assets}{Equity} \quad (2.19)$$

total assets divide by *equity* is *financial leverage*. In finance, *leverage* is any technique involving the use of borrowed funds in the purchase of an asset, with the expectation that the earning after tax from the asset and asset price appreciation will exceed the borrowing cost. It reflects the extent to which the company uses it to carry out its business activities. The higher the leverage of the company, the higher the risk of the company. And we can continue to decompose these ratios. That is, *net profit margin* can be decomposed into *tax burden*, *interest burden*, and *operating margin*. The calculation is shown below:

$$Net\ profit\ margin = \frac{EAT}{Revenues} \times \frac{EBT}{EBIT} \times \frac{EBIT}{Revenues} \quad (2.20)$$

After getting results of three component ratios (they are net profit margin, total assets turnover, and financial leverage), we can continue to analyze the impact of changes in component ratios on basic ratio by using four methods. They are: method of gradual changes, logarithmic method, functional method, and integral method. In this thesis, we just focus on method of gradual changes. We will study this in Chapter 2.

3. Characterization of Dalian Wanda Group

In this chapter, author will introduce the basic information about Dalian Wanda Group, such as overview, organizational structure, major events, industries.

3.1 Overview of Dalian Wanda Group

Dalian Wanda Group Co., Ltd. (short for Wanda Group), which Wang Jianlin started in Dalian in 1988, is now one of the world's biggest conglomerate. Now, the group is based in Beijing, China, but has investments all around China and even in overseas.

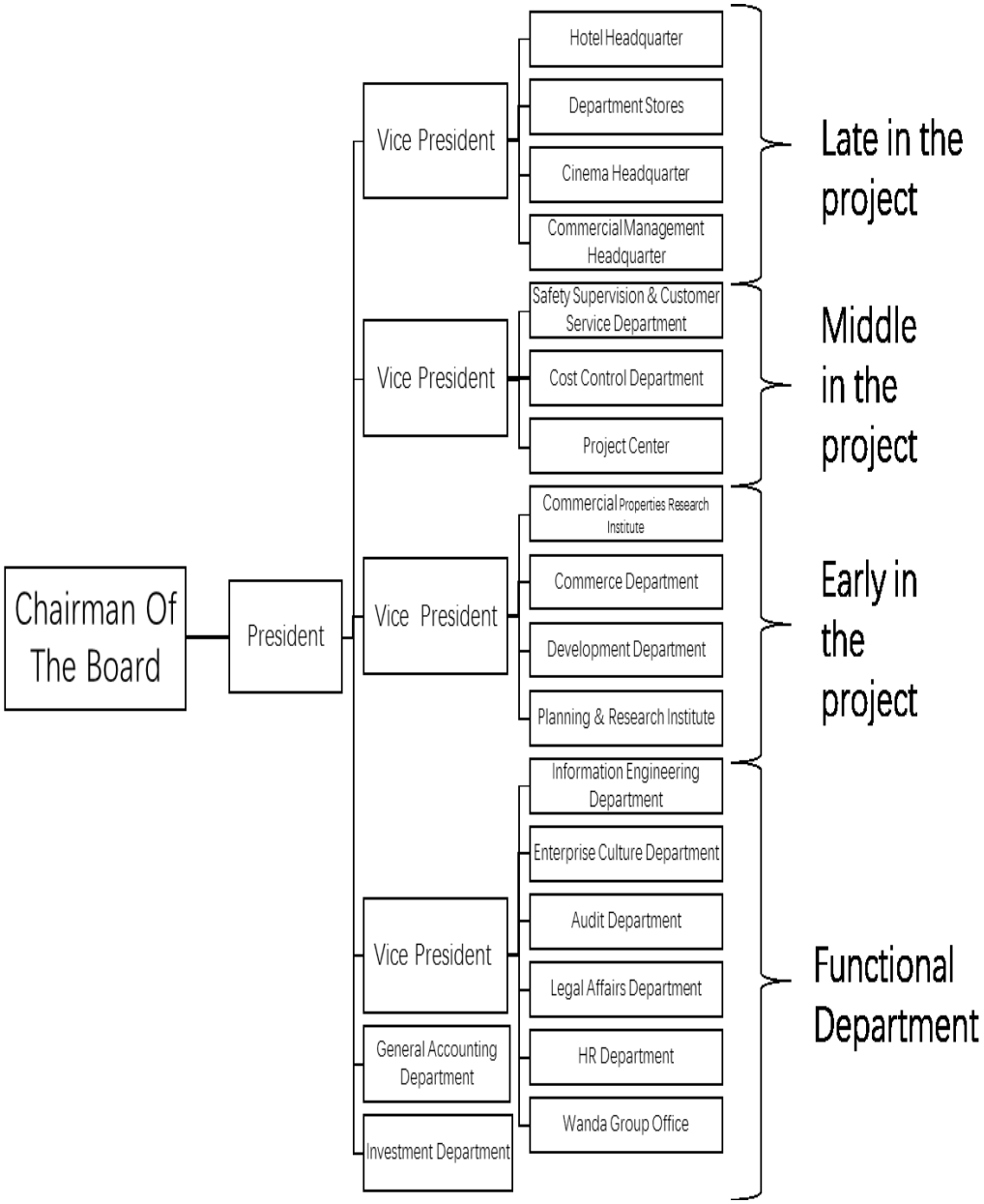
Wanda Group includes three main business groups. They are commercial properties, cultural industry group, financial group. Its assets grew 20.9% in 2015 to 634 billion yuan with revenue of 290.16 billion yuan (grew 19.1% in 2015). Wanda Commercial Properties, as the world's largest properties enterprise, wants to become the world's largest five-star hotel owners. Wanda Cultural Industry Group is the largest cultural business in China, in the same time, it is also the largest cinema operator in the world. And Wanda Financial Group owns the largest internet finance corporation in China.

Wanda is expected to expand assets in 2020 to 200 billion dollars with revenue of 100 billion dollars and net profit of 10 billion dollars.

3.2 Organizational Structure of Wanda Group

Wanda Group owns a tightly controlled system which Beijing based Wanda exercises major functions, except that partly project management and sales are in the charge of regional companies. All areas of Wanda's business are divided into three stages: early stage, middle stage, late stage, and they were managed by different professional sectors. A vice president takes charge of the land bidding, planning programming, and attracting investment in early stage of projects; A vice president is responsible for construction in middle stage of projects, in order to raise efficiency; Another vice president is in charge of commercial management, cinema, and department stores in late stage of projects.

Chart 3.1 Structure of Wanda Group



Source: Wanda's official website

Available on: http://www.wanda-group.com/

3.3 Major events of Company

In January 2000, Wanda made a historic decision that shifted their industries from single residential real estate to multiple operations, and adjusted companies across the country into one commercial company and one residential company. In July, it set up its first commercial

property project. That was Changchun Chongqing Road Wanda Plaza which also established a strategic partnership with the Wal-Mart.

In October 2005, Wanda started a series of companies which refer to Commercial Planning & Research Institute, Commercial Management Co., Ltd., Hotel Design & Research Institute and formed complete commercial real estate value chain. In December, Wanda made an institutional reform which merged the commercial company and the residential company into one company that is Wanda Commercial Properties. And Wanda Group decided to regard it as core industries and development of pillars.

In October 2007, Wanda Group founded Wanda Department Store and entered retail industry.

In June 2011, Wanda invested half a billion yuan in film industry and established Wanda Media. It marked the formation of Wanda's complete film industrial chain.

In September 2012, Wanda Group bought the nation's second largest theater chain AMS Entertainment with 2.6 billion dollars. It is the largest acquisition in the United States for a Chinese private company and also the largest overseas mergers and acquisition in China's cultural industries. Wanda Cultural Industry Group which is the top largest Chinese cultural enterprise was founded in December. And it got its start with 5 billion yuan and assets amounted to 31 billion yuan. Since then, it had steadily increased in value and had entered in 10 fields, including cinemas, film production, film industry parks, performing arts, film technology entertainment, theme parks, chain entertainment, newspaper media, art collecting and tourism.

On March 20, 2013, Wanda Commercial Properties acquired 1,856,341,956 shares in Hengli Commercial Properties (which had already listed in Hong Kong in 2002). These shares represent approximately 65% of the entire issued share capital of this company at the time. Because Wanda considered the business of Hengli Commercial Properties to be a good strategic which could fit with interests of it. Following the completion of the acquisition, managers of Wanda had reviewed the operation of the HK Listed Subsidiary's group with a view from time to time to diversify their businesses and income sources. That laid a solid foundation for going public in 2014.

On December 13, 2014, Wanda Commercial Properties was listed on the Hong Kong Stock Exchange and raised $3.7 billion. That was the biggest IPO on the Hong Kong Stock Exchange in 2014. Professional experts regarded it as the "most money a real estate company has raised in the public markets". This IPO made Wang Jianlin the founder of Wanda Group worth more than $25 billion and made him one of China's richest men. At the beginning, trading volume and share prices of Wanda Commercial were very nice. However, the morning sun never lasts a day. With time going by, because of its excessive non-current assets and low operating profits in recent years, overseas investors lacked confidence of Wanda Commercial. Stock prices became lower and lower. Finally, on September 20, 2016, Dalian Wanda Commercial Properties delisted from the Hong Kong Stock Exchange.

On January 11, 2016, Wanda Group acquired Legendary Entertainment for 3.5 billion dollars and signing ceremony was held in Beijing on next day. In September 2016, Wanda established a major strategic partnership with Sony Pictures movies, in which it will take minority investments in many of upcoming releases. In November, Wanda has been in talks to acquire the iconic Dick Clark Productions which is the producer of the Golden Globe Awards, in a deal that values the company at about $1 billion.

3.4 Industries

There are three major industries in Wanda Group. They are Wanda Commercial Properties, Wanda Cultural Industry Group, and Wanda Financial Group.

3.4.1 Commercial Properties

There is no doubt that Wanda Commercial Properties is the core industry of Wanda Group. In this thesis, author will pay more attention to analyze the financial position of this company.

3.4.1.1 Company Profile

Wanda Commercial Properties is the largest real estate enterprise in the world. By the end of 2015, 133 Wanda Plazas and 84 hotels, which owned the real estate area amounted to 26.32

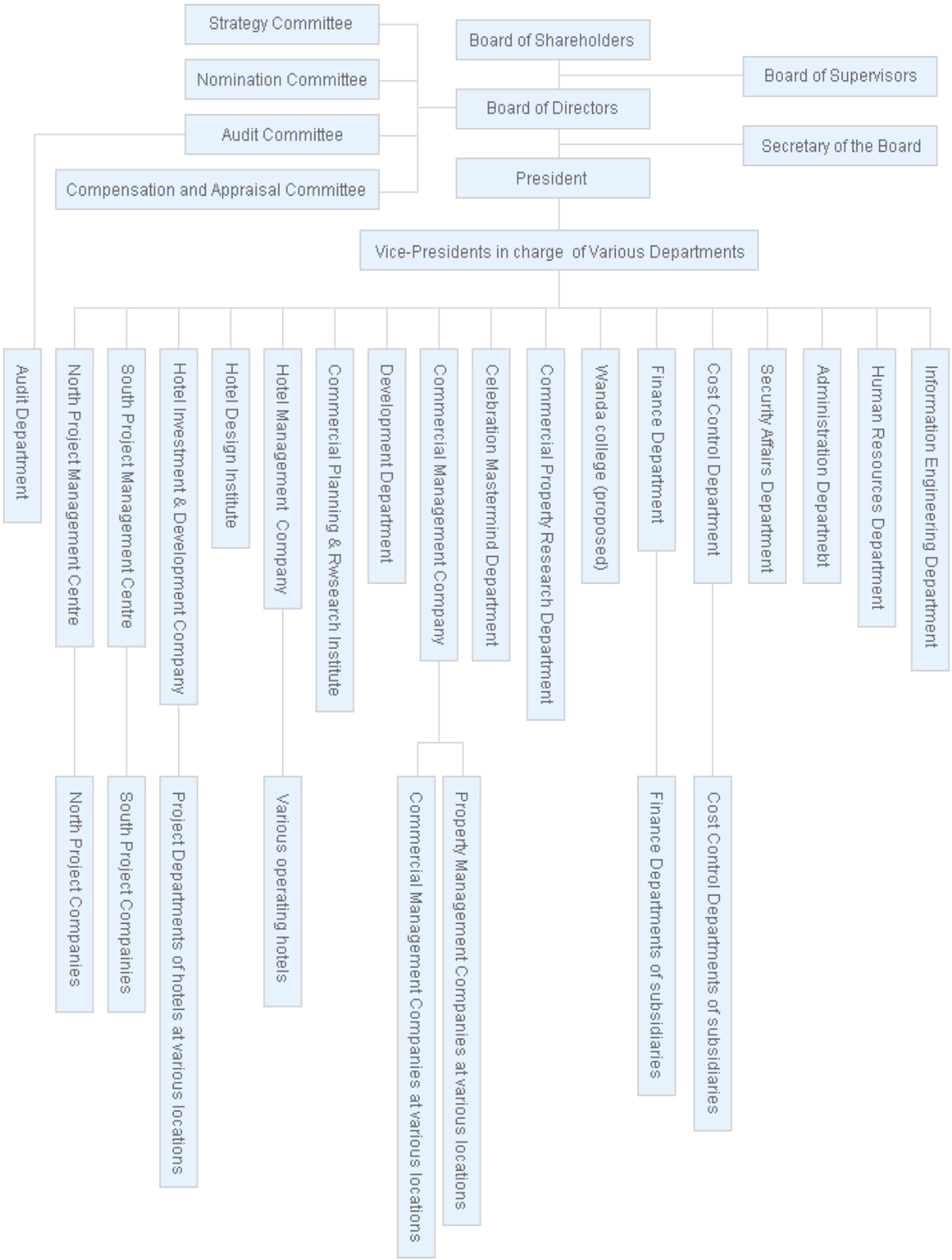
million square meters had opened. Wanda Commercial Properties includes Wanda Plazas, Commercial Planning & Research Institute, Hotel Design & Research Institute, Commercial Management Co., Ltd., and Department Store. The above-mentioned subsidiaries formed the complete industrial value chain and core competitiveness of Wanda Commercial Properties.

Its key product that is called as "Wanda Plaza" refers to the Wanda urban complex. By the end of 2016, it has opened 171 Wanda Plazas.

At present the business of company is mainly divided into four parts: commercial centers, luxury hotels, commercial management, and property sales. As the first company, which achieved national distribution of large commercial real estate, occupies an absolute leading position in China's commercial real estate industry.

3.4.1.2 Organizational Structure

Chart 3.2 Structure of Wanda Commercial Properties



Source: Wanda Commercial Properties' official website

Available on: http://www.wandaplazas.com/en/about/organiz/

3.4.1.3 Major Events

The company was founded in September 2002 and changed into a joint stock company with registered capital of 3.87 billion yuan in December 2012.

In 2013, Dalian Wanda Commercial Properties (short for "Wanda Commercial") whose A share listing failed (because Chinese government strictly controlled the listing of properties enterprises in Mainland China) planned to finance by reverse merger. On March 20, Wanda Commercial signed a deal that they will purchase 65% of all shares of Hengli Commercial Properties (Group) Limited (00169.HK). On April 10, the case has been settled. Wanda acquired Hengli Commercial Properties for 674 million Hong Kong dollars. And the Company jointly acquired a property at 1 Nine Elms Lane, London SW8 5NQ, the United Kingdom with Wanda Commercial Properties (Hong Kong) Co. Limited (“Wanda HK”) in form of a joint venture in October 2013.

In 2014, Wanda Commercial (03699.HK), which was the only platform of Wanda Group's commercial properties investments and operations, went public on the Hong Kong Stock Exchange and was the largest IPO of the year.

However, Wanda Commercial’s business model was relatively asset-heavy model, which meant it existed huge fixed costs. It mainly relied on assets to generate profits rather than operation. For example, it sold properties to gain huge cash flows, then it could afford its rental properties. That did not match the investing idea of many overseas investors. Hence, in 2015, Wanda Commercial began to convert to asset-light strategy, marking it would make profits by its brand and operation. But, the outcome was not positive. The stock price of Wanda Commercial was seriously underestimated in 2016. The company chose to delist from the Hong Kong Stock Exchange.

On August 15, 2016, Wanda Commercial held a general meeting of stockholders in Beijing, and delisting resolution of Wanda Commercial on the Hong Kong Stock Exchange was approved.

On the one hand, this event made a great difference in its corporate image for overseas investors and average people. And it made other property enterprises’ IPO in Hong Kong more

carefully. On the other hand, Wanda Commercial can pay more attention to prepare to issue A shares in Mainland China in the future. Because investors in Mainland China knew that this kind of model was very common for property enterprises in China, and they do not worry about these problems. They know much more about this company, and even if it delisted from the Hong Kong Stock Exchange, they still have strong confidences about it.

3.4.2 Cultural Industry Group

Wanda Cultural Industry Group ranks as the top cultural enterprise in China. Its assets amounted to 90.3 billion yuan with annual revenue of 51.2 billion yuan in 2015. Among this group, there are many main companies, such as Film Holdings, Tourism Holdings, Sports holdings, Children's Entertainment and so on. With time going by, this group owns increasing core competitive power. The aim of this group is to become the world's top five cultural companies, as far as revenue.

3.4.3 Financial Group

Wanda Financial Group is engaged in many key financial companies——internet finance, investment, and insurance, and provides one-stop innovative financial services to consumers. Its annual revenue amounted to 20.9 billion yuan in 2015.

Wanda Investment Company aims for mergers and acquisitions in overseas markets, meanwhile, and PE investments and asset management business. It has successfully completed multiple consolidations and acquisitions in culture, sports, tourism, and other fields.

4. Financial Analysis of Dalian Wanda Group

This chapter, in some ways, is an extension of Chapter 2 and Chapter 3. We will continue to study financial analysis methodologies and Dalian Wanda Group, but pay more attention to make practical use of financial analysis methods to evaluate Wanda Group's financial performance. And, because Wanda Group is a very big conglomerate, in this chapter, we just focus on one of its subsidiaries——Wanda Commercial Properties. The main source of data is Wanda Commercial's annual reports which are from 2011 to 2015.

4.1 Common-size analysis

From Chapter 2, as is known to us all, common-size analysis statements can be used to examine correlation between relative items over the time and how many proportions of different items are in the same statement. In the next part, we will study about the balance sheet and the income statement of Wanda Commercial from view of horizontal analysis and view of vertical analysis.

4.1.1 Horizontal common-size analysis

Horizontal analysis (also called trend analysis) can be used to analyze Wanda Commercial's change trends of financial statements data over the time. We will focus on absolute change of items in balance sheet and income statement. The first period which we start to analyze is from the end of 2011 to the end of 2012 (that is during 2012). The last period is during 2015. There are four periods during these years.

4.1.1.1 Horizontal analysis of balance sheet

This part will reveal absolute change of items in balance sheet of Wanda Commercial. It is shown in Table 4.1.

Table 4.1 Absolute change of items in balance sheet

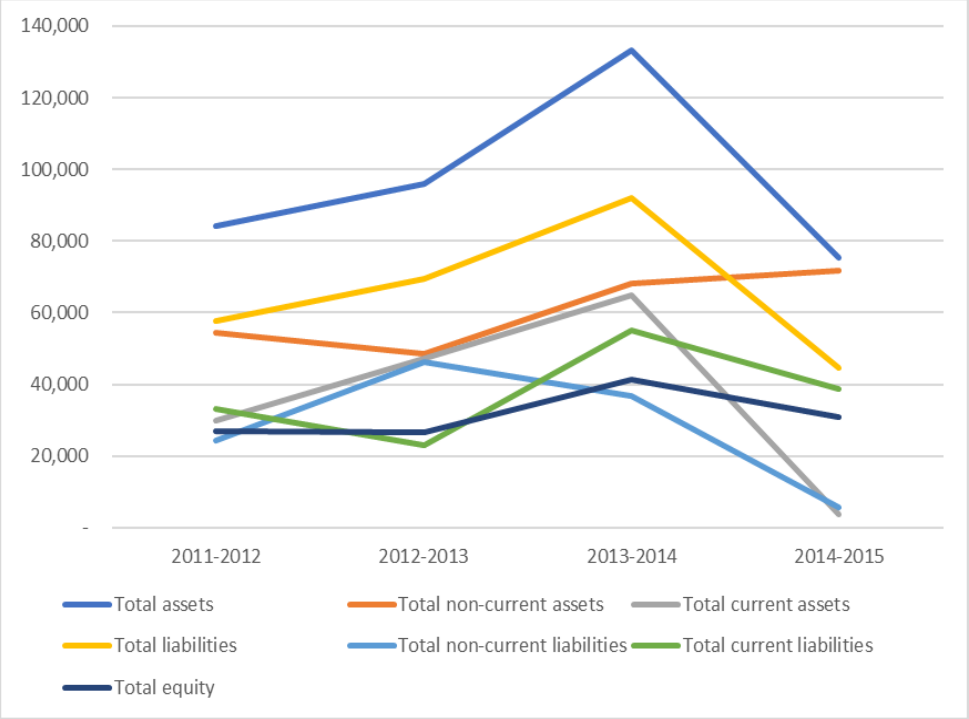
	2011-2012	2012-2013	2013-2014	2014-2015
Total assets	84,333	95,932	133,250	75,266
Total non-current assets	54,510	48,633	68,216	71,677
Total current assets	29,823	47,299	65,034	3,589
Total liabilities	57,523	69,411	91,976	44,515
Total non-current liabilities	24,273	46,263	36,792	5,743
Total current liabilities	33,250	23,148	55,184	38,772
Total equity	26,810	26,521	41,274	30,751

Source: Own calculation; unit: RMB million

From Table 4.1, we can easily know that the greatest absolute change of assets, liabilities, and equity all appeared in 2014. Comparing to the end of 2013, assets increased 133250 million yuan, liabilities increased 91976 million yuan and equity increased 41274 million yuan. The difference between the number of absolute change of assets and liabilities is equal to the absolute change of equity. That can prove Formula (2.1) in Chapter 2 that assets are equal to liabilities plus shareholders' equity. And in the absolute change of assets, non-current assets took a large part during these years.

We continue to look at change trends of balance sheet in Wanda Commercial from 2011 to 2015 in Graph 4.1.

Graph 4.1 Absolute change of items in balance sheet



Source: Own elaboration; unit: RMB million

From these two charts (one is Table 4.1, the other is Graph 4.1), we figure out that management condition of Wanda Commercial seemed to be going smoothly from 2011 to 2015. Because three variables of its balance sheet all increased overall. Though the growth rate slowed down in 2015.

However, China's economy had slowly developed since the end of 2013, and investments (which have long been one of the economy's main engines) in properties declined in 2014. Enterprises faced greater challenges in their development. In the view of the National Bureau of Statistics, sales of commodity housing units in China decreased by 6.3% in 2014. Wanda Commercial also bore the huge pressure of sales during this period. In the meanwhile, it planned to go public at the end of this year. It needed its scale of investment to increase rather than decrease. Hence, the number of Wanda Plazas increased by 23 and the number of hotels increased by 18 in 2014. Therefore, its current liabilities rose rapidly in 2014. That was the reason that absolute change of total assets and total current liabilities culminated in 2014.

And we can find out that non-current assets increased a lot every year. It meant that Wanda

Commercial was an asset-heavy company. These assets would take a large amount of cash and fixed costs. Like we mentioned in Chapter 3, it was not the good news for foreign investors after Wanda Commercial went public in 2014.

Then, we can discuss horizontal analysis of income statement.

4.1.1.2 Horizontal analysis of income statement

This section will show absolute change of items in income statement of Wanda Commercial. It is displayed in Table 4.2.

Table 4.2 Absolute change of (partly) items in income statement

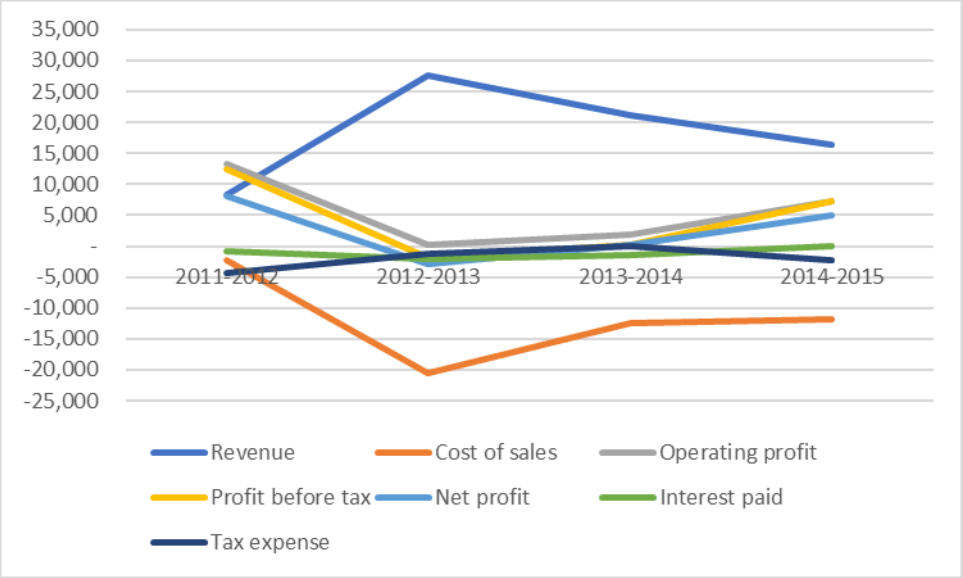
	2011-2012	2012-2013	2013-2014	2014-2015
Revenue	8,319	27,683	21,097	16,332
Cost of sales	-2,338	-20,631	-12,507	-11,891
Operating profit	13,228	222	1,765	7,327
Profit before tax	12,423	-1,772	308	7,239
Net profit	8,046	-2,939	219	5,007
Tax expense	-4,377	-1,167	-89	-2,232

Source: Own calculation; unit: RMB million

From Table 4.2, we can find some interesting information. For example, the greatest absolute change of revenues was 27683 million yuan in 2013. And all the greatest absolute change of expense appeared in 2013 which was also earlier than 2014.

Then, we can look at its trends' graph which is shown below.

Graph 4.2 Absolute change of (partly) items in income statement



Source: Own elaboration; unit: RMB million

From above mentioned charts, we can find out that revenues of Wanda Commercial had been increasing since the end of 2011 and were at their peak in 2013. Because this period was a gold time for China's economy increase, especially for real estate sector. Many Chinese had a strong faith in properties sector and invested a lot. There was no doubt that Wanda Commercial would seize the opportunity to develop its business.

As we mentioned above, property enterprises are very difficult to go public in Mainland China. On April 10, 2013, Wanda Commercial signed a contract that they would purchase 65% of all shares of Hengli Commercial Properties (Group) Limited for reverse merger (which means Wanda Commercial wanted to go public through buying a shell) in Hong Kong. Then, it had to finish a significant project for Hengli Commercial. This project named "Hengli City" which was a residential, office and retail complex with a total gross floor area of approximately 241,600 square meters. And in this year, Wanda Commercial took some acquisition actions. Therefore, it was not surprising that expenses of this company in 2013 was very high. And, because it spent a lot on these investment, the absolute change of net profit was negative in this year.

As the saying goes, when you have a boom, you have a bust. In China, recession appeared

in next year. Just the author mentioned in previous part, investments in properties sector decreased in 2014. It resulted that growth rate of Wanda Commercial's revenues slowed down from 2014 to 2015.

4.1.2 Vertical common-size analysis

Vertical common-size analysis can be used to evaluate the changes of different items in the proportions of selected benchmarks. From Chapter 2, as we all know, in balance sheet analysists regard assets as a hundred percent, and in income statement they suppose revenues as a hundred percent. In this analysis, the percentage is calculated by using the following formula:

$$Percentage\ of\ benchmark=\frac{Amount\ \ of\ \ individual\ \ item}{Amount\ \ of\ \ benchmark}\times 100\% \qquad (4.1)$$

it is very convenient for inter-company comparison of enterprises with different sizes because all components can be shown as a percentage of some common number.

Below, we will analyze Wanda Commercial's statements by using this method. And periods when we evaluate are from the end of 2010 to the end of 2015. Therefore, there are 5 periods during these years.

4.1.2.1 Vertical analysis of balance sheet

On account of Formula (2.1) from Chapter 2, before we conduct vertical analysis of balance sheet, we are able to divide three kinds of variables of balance sheet in Wanda Commercial into two parts. One part is related to assets, the other part is about liabilities and shareholders' equity which are equal to total assets.

And follow what we mentioned above, we will regard total assets as a hundred percent. Because of Formula (4.1), we should measure how many each kind of assets account in the proportion of total assets. Then, we will focus on the graph about how these ratios change in balance sheet.

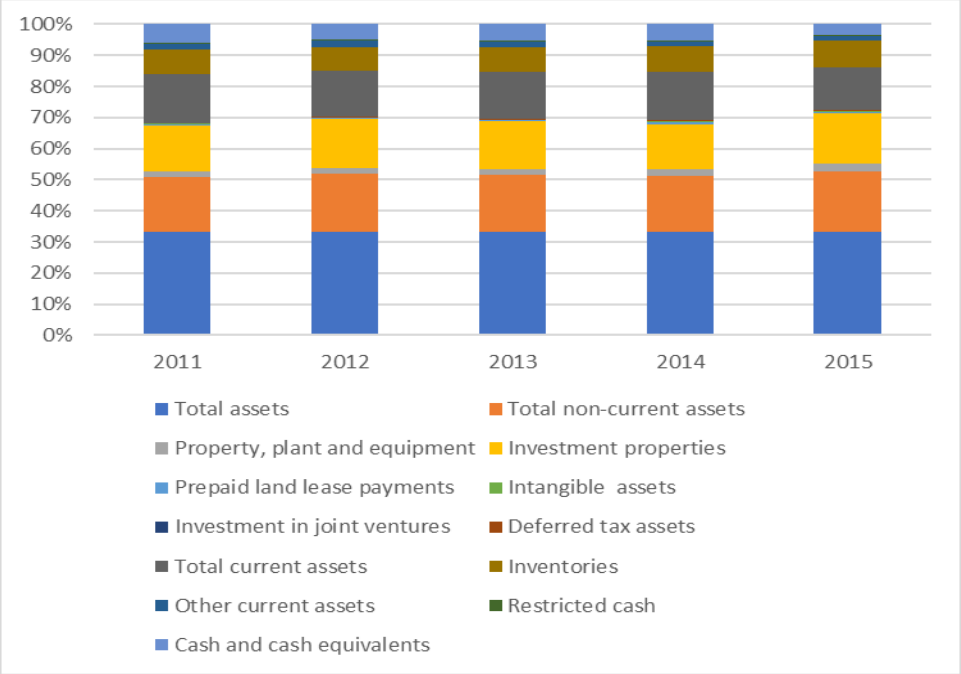
We can find these results of calculation in below and look at each items' changes of percentage in Graph 4.3.

Table 4.3 Vertical analysis of total assets

	2011	2012	2013	2014	2015
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%
Total non-current assets	52.48%	55.54%	54.46%	53.69%	58.58%
Property, plant and equipment	5.48%	5.44%	6.02%	6.25%	6.71%
Investment properties	44.34%	47.47%	46.06%	43.97%	48.39%
Prepaid land lease payments	1.61%	1.66%	1.45%	1.77%	1.57%
Intangible assets	0.02%	0.02%	0.10%	0.85%	0.91%
Investment in joint ventures	0.00%	0.00%	0.03%	0.08%	0.08%
Deferred tax assets	1.01%	0.93%	0.78%	0.76%	0.90%
Total current assets	47.52%	44.46%	45.54%	46.31%	41.42%
Inventories	22.74%	22.79%	23.31%	25.73%	26.15%
Other current assets	6.34%	6.54%	5.14%	4.10%	3.83%
Restricted cash	0.88%	0.64%	0.96%	1.19%	1.02%
Cash and cash equivalents	17.56%	14.50%	16.13%	15.29%	10.41%

Source: Own calculation

Graph 4.3 Vertical analysis of total assets



Source: Own elaboration

From these two charts, we can easily realize that the proportion of structure of each asset didn't change a lot in 5 years. In other words, the structure of these assets was stable overall in these years. It indicates that Wanda Commercial had operated steadily during these years and the development of this company was sustainable.

But, if we study these two charts carefully, we will figure out that total non-current assets accounted for a growing share of total assets overall. Because every year, Wanda Commercial would pay a lot of money to invest in properties. The proportion of investment properties had increased 4.05% from 2011 to 2015.

As for the decreasing figures of 2013 and 2014, Wanda Commercial had increased a lot of total assets during this period. Hence, even if the company's total non-current assets and investments on properties had declined, its absolute number had still risen. We can find evidence from Table 4.1. In the meanwhile, the proportion of cash and cash equivalent in total assets became less and less overall. It had reduced 7.15% from 2011 to 2015. It suggested that Wanda Commercial attached great importance to its fixed assets and existed deficiency in liquidity. This left potential problem for the delisting in 2016.

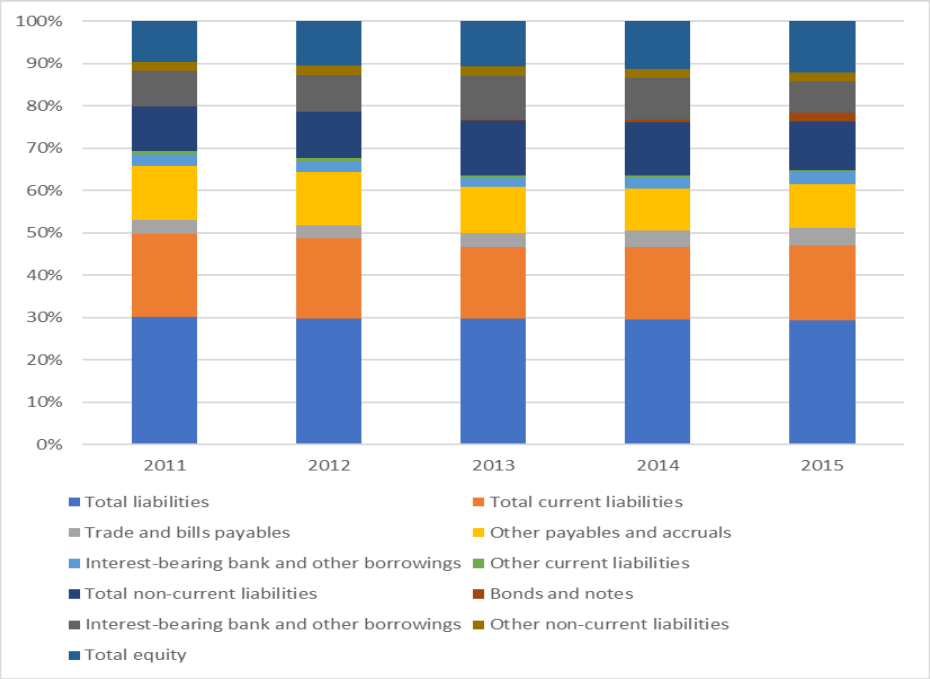
Next, we will focus on liabilities and shareholders' equity. The table and graph of vertical analysis of liabilities and equity are shown below.

Table 4.4 Vertical analysis of liabilities and equity

	2011	2012	2013	2014	2015
Total liabilities	75.86%	73.93%	73.58%	72.51%	70.93%
Total current liabilities	49.40%	46.89%	41.82%	41.73%	42.88%
Trade and bills payables	8.29%	7.66%	8.03%	9.52%	10.07%
Other payables and accruals	32.26%	31.00%	27.15%	24.46%	25.05%
Interest-bearing bank and other borrowings	6.62%	6.47%	4.88%	6.46%	6.56%
Other current liabilities	2.23%	1.76%	1.77%	1.28%	1.20%
Total non-current liabilities	26.46%	27.05%	31.76%	30.78%	28.06%
Bonds and notes	0.00%	0.00%	0.85%	1.28%	5.11%
Interest-bearing bank and other borrowings	21.19%	21.35%	25.36%	24.33%	17.52%
Other non-current liabilities	5.27%	5.70%	5.55%	5.17%	5.43%
Total equity	24.14%	26.07%	26.42%	27.49%	29.07%

Source: Own calculation

Graph 4.4 Vertical analysis of liabilities and equity



Source: Own elaboration

From above, we can know that the structure of proportion of total liabilities in Wanda Commercial had decreased 4.93% in these years. And the structure of equity accounted for an increasing share of this part. The ratio of equity to assets increased from 24.14% to 29.07% during these years. These results indicated that Wanda Commercial had developed stably from 2011 to 2015.

The ratio of total liabilities to total assets was still very high, and the ratio of shareholder's equity to total assets was very low. In fact, it was a common situation for Chinses real estate enterprises. Because, properties are such a kind of industry which require a lot of up-front investment. Most of property companies, if they want to develop some projects, they must borrow some debts. Actually, it was not a good information for creditors. It suggested that the debt paying ability of this company was not very well. We will discuss this situation in financial ratios analysis later.

4.1.2.2 Vertical analysis of income statement

If we want to conduct a vertical analysis of income statement, we should suppose the figure

of revenues as the benchmark and all other items of income statement like cost of sales, gross profit, operating profit, income tax expenses, net profit and so on are shown as a percentage of sales.

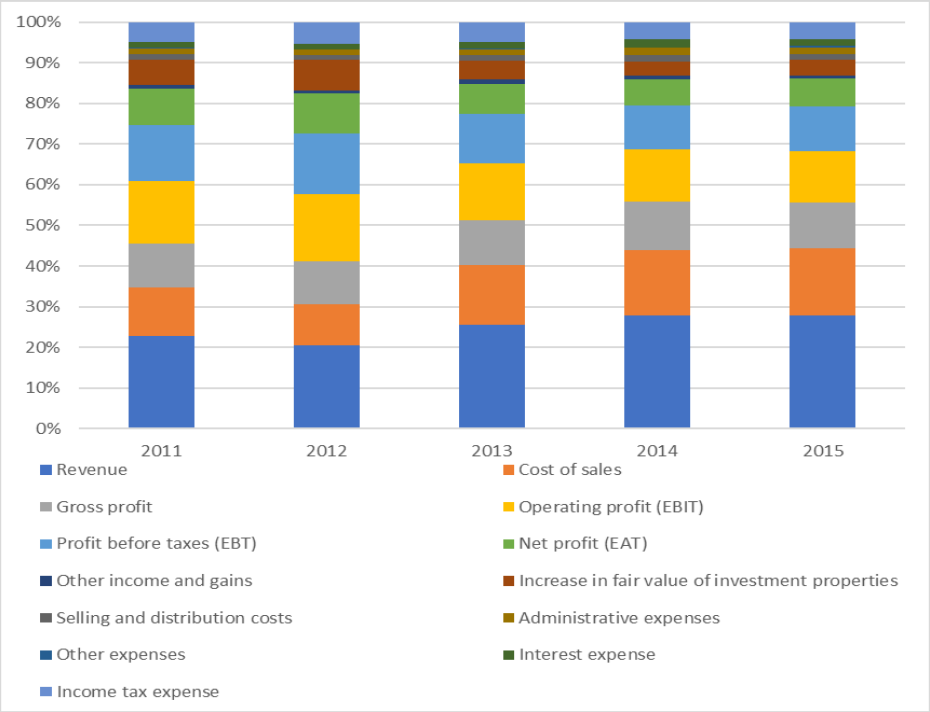
The table which we calculated is shown below. And we can also see changes of percentage about these items in Graph 4.5.

Table 4.5 Vertical analysis of income statement

	2011	2012	2013	2014	2015
Revenue	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	52.13%	48.75%	56.97%	57.43%	59.45%
Gross profit	47.87%	51.25%	43.03%	42.57%	40.55%
Operating profit (EBIT)	66.76%	79.75%	54.56%	45.53%	45.44%
Profit before taxes (EBT)	60.74%	73.22%	47.82%	38.75%	39.48%
Net profit (EAT)	38.95%	47.08%	28.67%	23.27%	24.24%
Other income and gains	3.87%	3.66%	4.77%	2.97%	2.96%
Increase in fair value of investment properties	27.56%	37.06%	17.80%	12.47%	13.87%
Selling and distribution costs	5.57%	5.07%	4.95%	5.67%	4.67%
Administrative expenses	6.35%	6.68%	5.66%	6.20%	5.92%
Other expenses	0.61%	0.46%	0.41%	0.62%	1.34%
Interest expense	6.02%	6.53%	6.75%	6.78%	5.96%
Income tax expense	21.80%	26.13%	19.14%	15.48%	15.24%

Source: Own calculation

Graph 4.5 Vertical analysis of income statement



Source: Own elaboration

As we can see from these two charts, Wanda Commercial met some challenges in 2014. That is because, the ratio of net profit is the lowest (that is 23.27%) among these years and the ratio of expenses is the secondary high among these years. These results proved a point which we referred to——the decline of Chinese properties market in 2014.

With the rate of economic growth slowing down and the business environment becoming more complicated, Wanda Commercial faced same challenges. But the good thing was that Wanda Commercial's financial performance was much better than other real estate enterprises. Its sales ranked third among all property enterprises in China. Its total contracted sales was 160,150 million yuan, representing an increase of 27% as compared with 2013. That was because its core business——Wanda Plazas. And it could enjoy the maximum benefits brought by Wanda Plazas, resulting in a much higher intrinsic value in its properties than those competitors and great advantages that were hard to duplicate.

Also from above-mentioned charts, we can figure out that Wanda Commercial tried to be out of macroeconomic dilemma in 2015. Because, comparing to the results of 2014, these ratios

which are shown in 2015 expressed favorable trends overall.

In a word, according to above analysis, Wanda Commercial operated well but still met some problems from 2011 to 2015. Next, we will start to analyze its financial condition by using financial ratios.

4.2 Financial ratios analysis

From Chapter 2, we know some typical ratios which can be used to evaluate a company's financial performance. In this section, we will use these ratios to analyze Wanda Commercial's financial condition. The main source of data is their financial statements from its annual reports. Periods when we select are from 2011 to 2015.

4.2.1 Profitability ratios

When it comes to evaluate a company's operation condition, we usually think about the profitability of it and we want to know how much the company earn from its business activities. There are two points about the profitability we should know. One is the level of profits relative to the revenues. That means we can compare operating profits or net profits to total revenues. The other is the rate of return that management is earning on firm's capital. It refers to we can calculate the rate of return from investing assets and equity. Therefore, analysists evaluate the profitability of the company by calculating four ratios. They are: operating profit margin, net profit margin, return on assets and return on equity.

The data which is necessary for calculation is shown in Table 4.6.

Table 4.6 Data for calculating profitability ratios

Year ended 31 December (RMB Million)					
	2011	2012	2013	2014	2015
Revenue	50,772	59,091	86,774	107,871	124,203
Operating profit (EBIT)	33,897	47,125	47,347	49,112	56,439
Net profit (EAT)	19,775	27,821	24,882	25,101	30,108
Total assets	250,779	335,112	431,044	564,294	639,560
Total equity	60,541	87,351	113,872	155,146	185,897

Source: Annual Report of Wanda Commercial

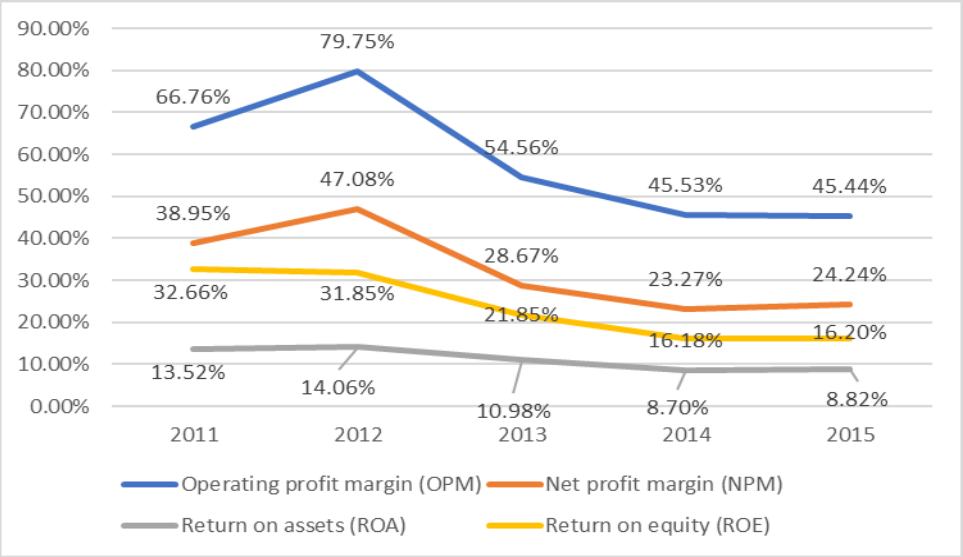
Based on Chapter 2, we have to calculate these ratios by using Formula (2.3), (2.4), (2.5), (2.6). After calculation, we can get this useful information about Wanda Commercial's financial condition. The results of these ratios are shown below and changes of these ratios can be found in Graph 4.6.

Table 4.7 Profitability ratios of Wanda Commercial

	2011	2012	2013	2014	2015
Operating profit margin (OPM)	66.76%	79.75%	54.56%	45.53%	45.44%
Net profit margin (NPM)	38.95%	47.08%	28.67%	23.27%	24.24%
Return on assets (ROA)	13.52%	14.06%	10.98%	8.70%	8.82%
Return on equity (ROE)	32.66%	31.85%	21.85%	16.18%	16.20%

Source: Own calculation

Graph 4.6 Changes of profitability ratios



Source: Own elaboration

From above graph, we can easily know Wanda Commercial's operating profit margin and net profit margin both decreased from 2012 to 2014 overall. And return on equity of it declined from 2011 to 2014. The curve of return on assets was the most stable one but also showed a downward trend. Until the last year of these periods, the ratios of them began to rise.

As we mentioned before, in March 2013, Wanda Commercial acquired 65% of all shares of Hengli Commercial Properties and had to undertake the task of building Hengli City. In addition, this company acquired the property located at 1 Nine Elms Lane, London SW8 5NQ, United Kingdom in form of a joint venture in October 2013. It invested lots of capital in these projects. That was the reason margin's ratios got the large declines in 2013. After 2013, Wanda Commercial's profitability went down because of the serious economic situation. And, for Wanda Commercial, it is easy to understand why the operating profits increased slowly. Because this company was an asset-heavy company, it mainly depended on selling properties to gain profits and costs were huge. Therefore, its return on assets and equity were relatively low.

4.2.2 Liquidity ratios

There are two points of view to evaluate a company's liquidity. Frist, we can look at the

firm's assets that are relatively liquid in nature and compare them to the amount of the debt coming due in the near term. We will study it in this section. Second, we can consider how quickly the firm's liquid assets (that mean accounts receivable and inventories) are being converted into cash. We will discuss it in the next part.

For the first point of view, we can compare Wanda Commercial's liquid assets to short-term liabilities. From Chapter 2, we know that liquid assets include cash, accounts receivable, and inventories. The data which we should use is shown below.

Table 4.8 Data for calculating liquidity ratios

Year ended 31 December (RMB Million)					
	2011	2012	2013	2014	2015
Current assets	119,180	149,003	196,302	261,336	264,925
Current liabilities	123,879	157,129	180,277	235,461	274,233
Inventories	57,015	76,378	100,474	145,192	167,256
Cash and cash equivalents	44,048	48,585	69,525	86,303	66,606

Source: Annual Report of Wanda Commercial

According to Chapter 2, we can calculate three liquidity ratios by using Formula (2.7), (2.8), (2.9). Because cash equivalents include: treasury bills, commercial paper, marketable securities, money market funds and short-term government bonds. Therefore, we use this data instead of marketable securities for simplifying calculation.

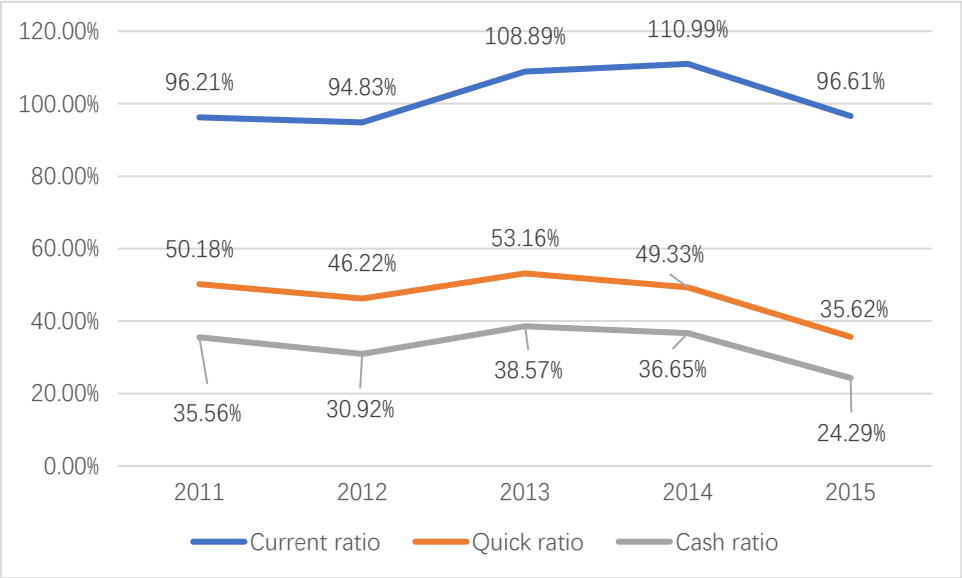
The results of calculation are revealed in Table 4.9. And, there is also a graph about changes of these ratios below.

Table 4.9 Liquidity ratios of Wanda Commercial

	2011	2012	2013	2014	2015
Current ratio	96.21%	94.83%	108.89%	110.99%	96.61%
Quick ratio	50.18%	46.22%	53.16%	49.33%	35.62%
Cash ratio	35.56%	30.92%	38.57%	36.65%	24.29%

Source: Own calculation

Graph 4.7 Changes of liquidity ratios



Source: Own elaboration

From this graph, we can discover that current ratio was the most unstable one. It had increased by 14.06% from 2012 to 2013, but it had decreased by 14.38% from 2014 to 2015. Quick ratio and cash ratio had been down from the 2013 to 2015.

Because quick assets equal current assets minus inventories. And the changing trend of current ratio and quick ratio showed in opposite direction in 2014. Therefore, we know that inventories accounted for a great share in current assets. It could be connected with the situation of investments in properties in 2014. On account of investors' poor confidence about properties, unsold properties were overstocked in market. In addition, this situation continued to 2015. That influenced the liquidity of assets of Wanda Commercial. For many property enterprises, liquidity is their primary problem. Wanda Commercial is no exception.

4.2.3 Assets management ratios

The second view of liquidity evaluates Wanda Commercial's capacity to convert accounts receivable and inventory into cash on a timely basis. In other words, we will calculate how quickly accounts receivable can be collected and how quickly inventories can be sold in Wanda

Commercial. Therefore, we must know three kinds of turnover ratios and average collection period. The necessary data for computing assets management ratios has been put below.

Table 4.10 Data for calculating assets management ratios

Year ended 31 December (RMB Million)					
	2011	2012	2013	2014	2015
Revenue	50,772	59,091	86,774	107,871	124,203
Accounts receivable	18,117	24,040	26,303	29,841	31,063
Inventories	57,015	76,378	100,474	145,192	167,256
Cost of sales	26,469	28,807	49,438	61,945	73,836
Total assets	250,779	335,112	431,044	564,294	639,560

Source: Annual Report of Wanda Commercial

Because the unit of turnover ratios are different from the unit of collection period, we'd better compare these variables separately. And base on Chapter 2, assets management (or activity) ratios can be calculated by using Formula (2.12), (2.14), (2.15). The results of calculation are shown in Table 4.11. And average collection period can be computed by using Formula (2.11), its results are displayed in Table 4.12. And two graphs of them are also shown below.

Table 4.11 Assets management ratios of Wanda Commercial

	2011	2012	2013	2014	2015
Accounts receivable turnover (ART)	280.25%	245.80%	329.90%	361.49%	399.84%
Inventory turnover (IT)	46.42%	37.72%	49.20%	42.66%	44.15%
Total assets turnover (TAT)	20.25%	17.63%	20.13%	19.12%	19.42%

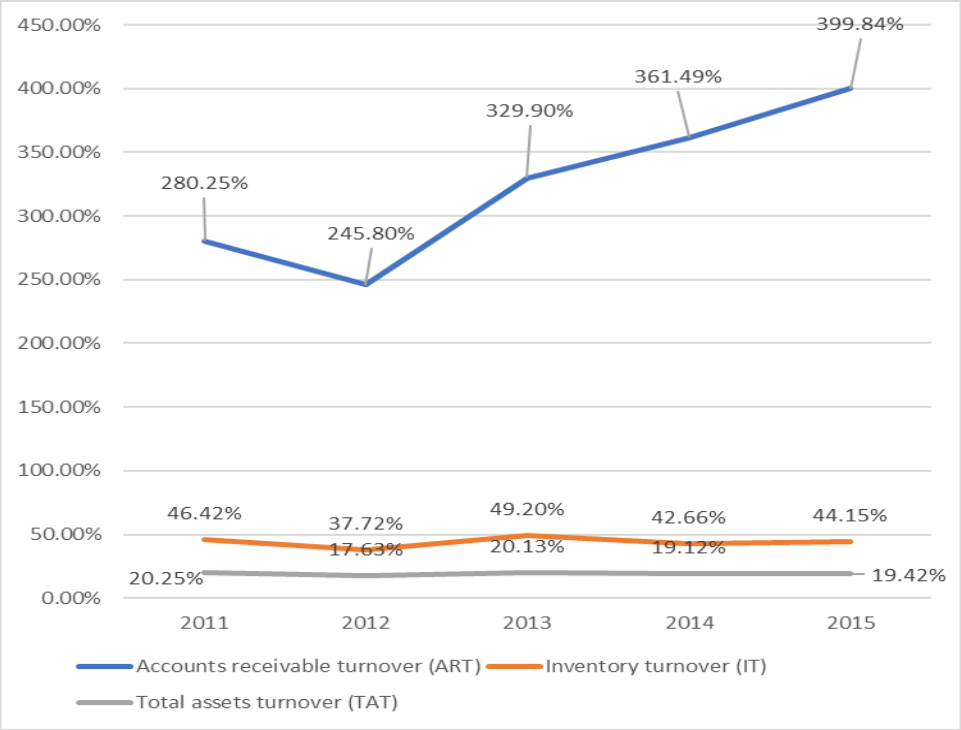
Source: Own calculation

Table 4.12 Average collection period

	2011	2012	2013	2014	2015
Average collection period (ACP)	128.46	146.46	109.12	99.59	90.04

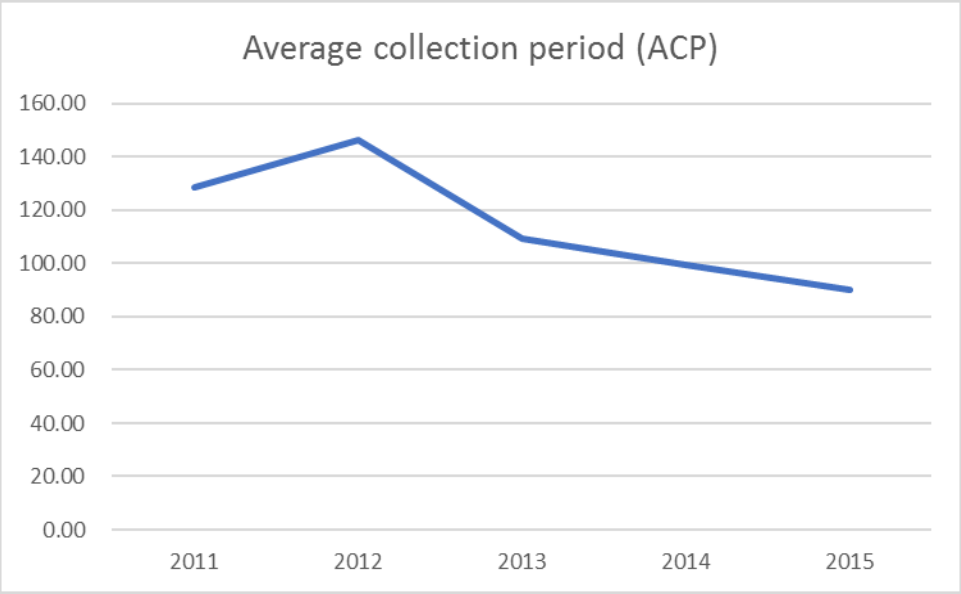
Source: Own calculation

Graph 4.8 Changes of assets management ratios



Source: Own elaboration

Graph 4.9 Changes of average collection period



Source: Own elaboration

Based on above graph, inventory turnover and total assets turnover had been stable overall. And accounts receivable turnover was the most unstable variable. The difference between the top point (in 2015) with the lowest point (in 2012) was around 154.04%. But, the good news was that this curve of accounts receivable turnover showed a sharp rising trend from 2012 to 2015. And the changing trend of accounts receivable turnover and average collection period showed in completely opposite direction from 2011 to 2015. That can make us realize the relationship between these two figures intuitively——the numerator and denominator of the two formulas are the opposite.

In addition, figures of ART and ACP expressed the ability which Wanda Commercial converted accounts receivable into cash became stronger and stronger. In 2015, Wanda Commercial's accounts receivable were "rolled over" nearly 5 times. We can know that even if Wanda Commercial had so much liabilities, this company could still survive in complicated situation of Chinses property industry. Because, average collection period was shorter and shorter. And this company could improve its efficiency for using money.

Trends of inventory turnover and total assets turnover were downward overall from 2013. Because inventories or assets couldn't be converted into cash so easily since 2014.

Another point we can find out is that three ratios all turned down in 2012, especially accounts receivable turnover. Because, the situation of properties' industry was really good for property enterprises in 2011. Many speculators appeared in real estate market. Chinese government unveiled a series measures to control real estate market and restrain speculative demand about real estate in 2012. Therefore, decision makers of Wanda Commercial decided to operate their business carefully. It resulted that the growth of revenue was so less in this year. If we looked at Table 4.3 and Table 4.5 more carefully, we can know that the proportion of costs of goods sold in revenue was the least during 5 years and total current assets took a lower proportion in these years.

4.2.4 Solvency ratios

Solvency ratios are very significant indicators for managing a company. Because, we know that solvency ratios of a company connected closely with its ability of fulfilling its long-term obligations. The higher of the debt ratio, the stronger of the ability of the firm to use the capital which creditor provide for the business activities, the lower of the security of the creditor's loan, the weaker of the ability of the enterprise to pay the debt.

Therefore, if we want to know debt ratios of Wanda Commercial, we must find out how many the proportion of its assets are financed by debt, and how much debt a company is using to finance its assets relative to the amount of value represented in shareholders' equity. And we can also compare the amount of operating profits with interest paid. It can prove Wanda Commercial's ability to pay interests on borrowings by using operating income. Therefore, we are supposed to calculate three solvency ratios of Wanda Commercial. They are: debt ratio, debt-to-equity ratio, interest coverage.

The data which we need to use is shown below.

Table 4.13 Data for calculating solvency ratios

Year ended 31 December (RMB Million)					
	2011	2012	2013	2014	2015
Total liabilities	190,238	247,761	317,172	409,148	453,663
Total assets	250,779	335,112	431,044	564,294	639,560
Total equity	60,541	87,351	113,872	155,146	185,897
Operating profit (EBIT)	33,897	47,125	47,347	49,112	56,439
Interest and bank charge paid	3,056	3,861	5,855	7,312	7,400

Source: Annual Report of Wanda Commercial

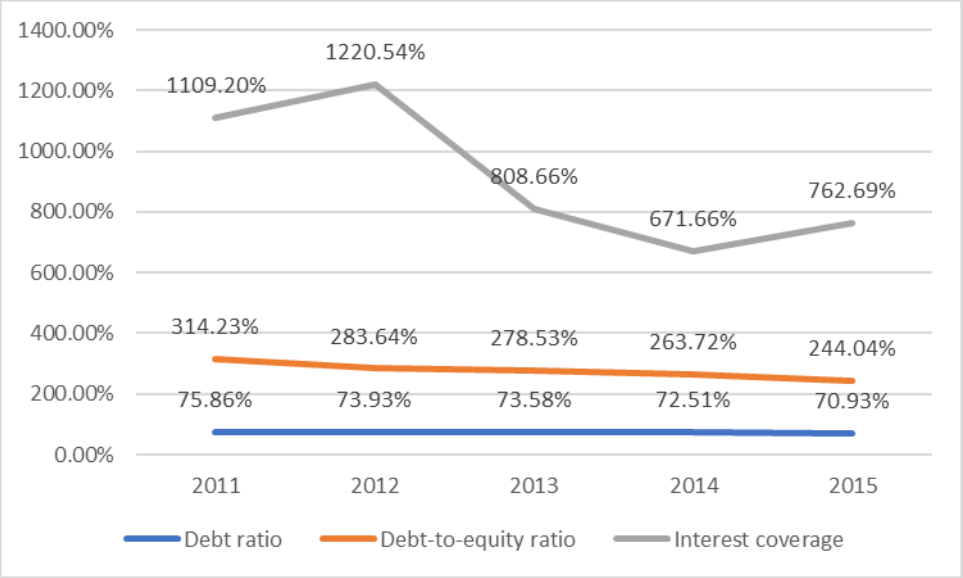
In view of Chapter 2, we used to compute solvency ratios by using Formula (2.16), (2.17), (2.18). The results of calculation are shown below. And we find changes of solvency ratios in these years in Graph 4.10

Table 4.14 Solvency ratios of Wanda Commercial

	2011	2012	2013	2014	2015
Debt ratio	75.86%	73.93%	73.58%	72.51%	70.93%
Debt-to-equity ratio	314.23%	283.64%	278.53%	263.72%	244.04%
Interest coverage	1109.20%	1220.54%	808.66%	671.66%	762.69%

Source: Own calculation

Graph 4.10 Changes of solvency ratios



Source: Own elaboration

From this graph, we can figure out that Wanda Commercial's debt ratio had been very high. Over 70% of assets had been financed by debt during these years. For a great number of industry, companies should keep their debt-to-assets ratio between 40% to 60%. Therefore, from the view of creditors, they require for a lower debt ratio (or debt to assets ratio). Because, the risk of company default is lower, and they can get their principles and interests back. If company's debt ratio is too high, creditors may no longer loan them money. However, in property industry, the normal ratio can be kept from 60% to 70 %. Even if the ratio is over than 70%, it depends. Just like we mentioned before, this kind of industry need a lot of up-front investment. And during these years, Wanda Commercial invested a lot of projects. It made sense that this company had such a high debt ratio. And, the good thing was that Wanda Commercial's debt ratio had been stable and had shown a downward trend from 2011 to 2015. Hence, for Wanda Commercial, a significant subsidiary of Wanda Group, which not so difficult to raise money from creditors.

The trend of debt-to-equity ratio was also stable and downward, just like the trend of debt ratio. Normally, debt-to-equity ratio should be controlled under 100%. However, because of the special industry and Wanda Group's good reputation, they could finance even if this ratio was

really high.

And the ratio of interest coverage had been very unstable from 2011 to 2015. We know that the higher of this ratio, the stronger of the company's ability to pay interests. Therefore, in 2011 and 2012, Wanda Commercial's operating profits were very considerable. In 2013, this company borrowed a lot of money for investing some big projects, so it had to pay more interests to bank. Hence, interest coverage went down sharply in this period.

We will discuss the solvency of Wanda Group in detail in the next part

4.3 DuPont analysis

From Chapter 2, we know that DuPont analysis can help us identify some different factors which can influence the return on equity (ROE) of a company, and identify which factors are critical for company's profitability.

According to Formula (2.19), we need some data which has been shown in Table 4.15 to calculate three component ratios.

Table 4.15 Data for DuPont analysis

Year ended 31 December (RMB Million)					
	2011	2012	2013	2014	2015
Net profit (EAT)	19,775	27,821	24,882	25,101	30,108
Revenue	50,772	59,091	86,774	107,871	124,203
Total assets	250,779	335,112	431,044	564,294	639,560
Total equity	60,541	87,351	113,872	155,146	185,897

Source: Own calculation

Now, we can analyze indicators whose change had resulted in changes of ROE in Wanda Commercial by applying method of gradual changes. There are three steps in this method.

Firstly, we should measure ROE's values for each period and calculate absolute change and index of the change.

Secondly, calculate three component ratios' values and changes for each period.

Thirdly, quantify the impact of the change in three ratios on ROE and order the ratios based on their impact on ROE.

Results of calculation are shown below.

Table 4.16 First step for method of gradual change

	2011	2012	2013	2014	2015
Return on equity (ROE)	32.66%	31.85%	21.85%	16.18%	16.20%
Absolute Change	×	-0.81%	-10.00%	-5.67%	0.02%
Index of the change	×	97.51%	68.61%	74.04%	100.11%

Source: Own calculation

We can discover that absolute change of ROE had been negative from 2012 to 2014. Index of the change of ROE was the lowest in 2013 and the highest in 2015.

Now, we look at Table 4.17.

Table 4.17 Second and third steps for method of gradual changes

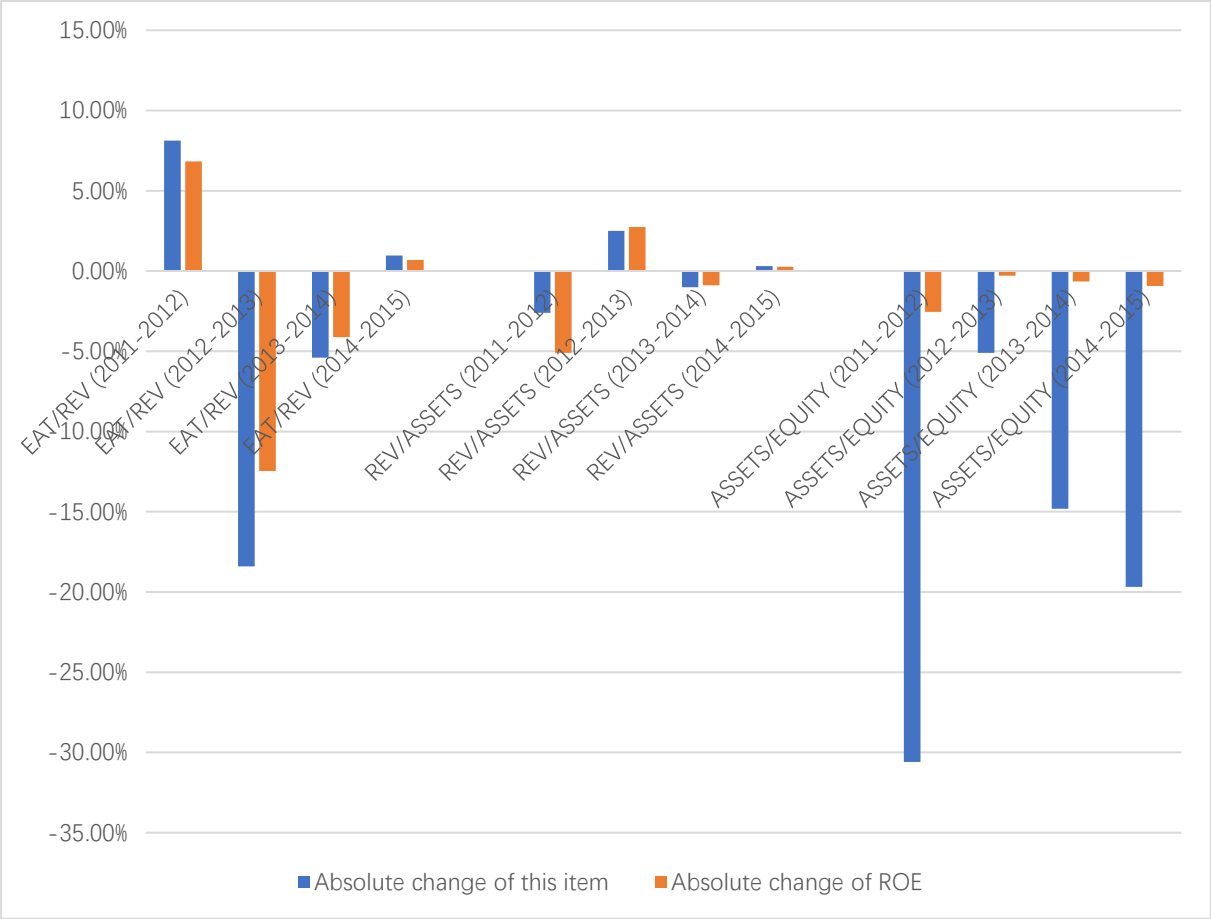
	2011	2012	Absolute change of this item	Absolute change of ROE	Order
EAT/REV	38.95%	47.08%	8.13%	6.82%	1
REV/ASSETS	20.25%	17.63%	-2.61%	-5.10%	2
ASSETS/EQUITY	414.23%	383.64%	-30.59%	-2.54%	3
SUM				-0.81%	
	2012	2013	Absolute change of this item	Absolute change of ROE	Order
EAT/REV	47.08%	28.67%	-18.41%	-12.45%	1
REV/ASSETS	17.63%	20.13%	2.50%	2.75%	2
ASSETS/EQUITY	383.64%	378.53%	-5.10%	-0.29%	3
SUM				-10.00%	
	2013	2014	Absolute change of this item	Absolute change of ROE	Order
EAT/REV	28.67%	23.27%	-5.41%	-4.12%	1
REV/ASSETS	20.13%	19.12%	-1.02%	-0.89%	2
ASSETS/EQUITY	378.53%	363.72%	-14.82%	-0.66%	3
SUM				-5.67%	
	2014	2015	Absolute change of this item	Absolute change of ROE	Order
EAT/REV	23.27%	24.24%	0.97%	0.68%	2
REV/ASSETS	19.12%	19.42%	0.30%	0.27%	3
ASSETS/EQUITY	363.72%	344.04%	-19.68%	-0.93%	1
SUM				0.02%	

Source: Own calculation

From this table, we can easily know that net profit margin was the greatest influence factor for Wanda Commercial's ROE from the end of 2011 to the end of 2014. In 2015, the greatest influence factor was financial leverage. And absolute change of ROE (to be specific, this is absolute change in ROE which was caused by the change of three component ratios) and absolute change of component ratios were the lowest in 2013.

We can look at a graph about trends of absolute change of them below.

Graph 4.11 Trends of absolute change



Source: Own elaboration

From Table 4.15, we know that in 2013 Wanda Commercial's net profit was only 24882 million yuan that was the lowest during these years. Because this year, Wanda Commercial spent a lot on building large projects and investment. Even if revenue of this year was very high, its costs got higher in a large range. And in 2015, this company's profits increased and made a positive difference in ROE. Although this difference was smaller than financial leverage, it still was a good sign for Wanda Commercial. It could make more profits because of its early investment.

Looking at Wanda Commercial's financial leverage from Graph 4.11. We can realize that this company's financial leverage had declined from 2011 to 2015, and from 2012 to 2013 it

decreased in a small range.

From Chapter 2, we know that financial leverage represents the debt level of a firm. If a company borrows too much money, it will bear much more risk. For example, it might go bankruptcy or default during a business downturn, while a company which has less debt might survive. Wanda Commercial's financial leverage had been very high from 2011 to 2015. Fortunately, the leverage of this company was downward. Even if some years, in order to develop new projects, the decreasing number of Wanda Commercial's financial leverage was not so big, it was still acceptable. After all, properties industry has been suffering from recent years in China.

In a word, Wanda Commercial developed very well in recent years, overall. Even though this company still existed some problems about liquidity and solvency, it could deal with them well during these years.

5. Conclusion

In this part, we will make a conclusion about the whole thesis.

The first chapter introduces the topic and the purpose of this thesis. And it also explains the structure of this thesis. From Chapter 2, we learn the definition and purposes of financial theoretically. The third chapter introduces some basic information about Wanda Group. And we can find an overview and organizational structure of it. Also, important events and introduction of industries for Wanda Group are included in this part. In Chapter 4, we evaluate Wanda Commercial's financial position by using methods which we mention in Chapter 2. We can get a lot of important results from this chapter.

We can easily get a conclusion that Wanda Commercial developed well during selected years, even if the macroeconomic environment in China seriously affected its operation. In 2012, because of real estate policies, it had to operate carefully. The growth of revenue in this year was the lowest during these years. In 2013, real estate market developed well. This company acquired Hengli Commercial and planned to reverse merger. And it completed the acquisition of the property in London. These large projects took Wanda Commercial a lot, and expenses of this year was very high. The profitability of this company declined during the period. In 2014, property market was depressed. Wanda Commercial increased investments when it undertook the difficult task of sales. Fortunately, it could operate Wanda Plazas which are unique and core businesses of Wanda Commercial to earn high profits. That was the reason that it could stand out from rest property enterprises. And it listed in Hong Kong in the end of this year. In 2015, the situation of economy was better than last year. Wanda Commercial also operated better than last year. In 2016, because it did not get complete success of business model, its stock prices were underestimated seriously. It delisted from the Hong Kong Stock Exchange and paid attention to list in Mainland China.

For most of property enterprises, liquidity ratios and debt ratios have been not very acceptable for recent years in China, Wanda Commercial as well. It existed some liquidity problems. From 2011 to 2015, we know that assets of Wanda Commercial had been stable overall, but not-current assets accounted for large parts of them. Cash and cash equivalents only

took small parts of them each year. And debt ratios of this company had been very high for these years. Hence, the suggestion of further follow-up works for Wanda Commercial is that it should keep a proper level of liquidity and control the level of debts.

All in all, there is no doubt that Wanda Group is a well-developed conglomerate in the world. For its subsidiary, in spite of its shortcomings, Wanda Commercial Properties also owns a bright future in property industry.

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List of Abbreviation

ACP	Average collection period
ART	Accounts receivable turnover
Co., Ltd.	Company limited
EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
EAT	Earnings after taxes
HK	Hong Kong
IPO	Initial public offering
IT	Inventory turnover
NPM	Net profit margin
OP	Operating profit
OPM	Operating profit margin
PE	Private equity
REV	Revenue
ROA	Return on assets
ROE	Return on equity
TAT	Total assets turnover

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Ostrava dated 29. 4. 2017

刘思雨 Siyu Liu

Student's name and surname

List of Annexes

Annex 1: Balance sheet (part 1)

Year ended 31 December (RMB Million)					
Items	2011	2012	2013	2014	2015
Total assets	250,779	335,112	431,044	564,294	639,560
Total non-current assets	131,599	186,109	234,742	302,958	374,635
Property, plant and equipment	13,742	18,246	25,955	35,283	42,923
Investment properties	111,194	159,074	198,539	248,101	309,481
Prepaid land lease payments	4,047	5,579	6,268	9,983	10,044
Goodwill	-	-	287	1,745	2,941
Other intangible assets	50	82	155	3,054	2,908
Investment in joint ventures	-	-	-	475	522
Investment in an associate	-	-	114	-	-
Deferred tax assets	2,545	3,107	3,376	4,272	5,771
Available-for-sale investments	10	10	37	35	35
Long-term receivables	11	11	11	10	10
Total current assets	119,180	149,003	196,302	261,336	264,925
Inventories	57,015	76,378	100,474	145,192	167,256
Prepaid tax.	1,756	3,123	3,211	5,469	6,808
Trade and bills receivables	293	333	280	848	497
Prepayments, deposits and other receivables	13,856	18,453	18,654	15,821	17,156
Other current assets	-	-	19	971	60
Restricted cash	2,212	2,131	4,139	6,732	6,542
Cash and cash equivalents	44,048	48,585	69,525	86,303	66,606

Annex 1: Balance sheet (part 2)

Year ended 31 December (RMB Million)					
Items	2011	2012	2013	2014	2015
Total liabilities	190,238	247,761	317,172	409,148	453,663
Total current liabilities	123,879	157,129	180,277	235,461	274,233
Trade and bills payables	20,782	25,662	34,628	53,743	64,420
Other payables and accruals	80,900	103,872	117,009	138,015	160,201
Interest-bearing bank and other borrowings	16,611	21,681	21,016	36,464	41,930
Government grants	-	191	450	-	-
Deferred income	-	-	-	395	317
Dividend payables	-	13	13	13	13
Tax payable	5,586	5,710	7,161	6,831	7,352
Net current assets/ (liabilities)	-4,699	-8,126	16,025	-9,308	25,875
Total assets less current liabilities	126,900	177,983	250,767	328,833	365,327
Non-current liabilities	66,359	90,632	136,895	173,687	179,430
Bonds and notes	-	-	3,675.00	7,210.00	32,651.00
Interest-bearing bank and other borrowings	53,136.00	71,547.00	109,302.00	137,295.00	112,065.00
Government grants	-	134.00	306.00	-	-
Deferred income	-	-	-	1,359.00	1,571.00
Deferred tax liabilities	13,223.00	18,951.00	23,612.00	27,821.00	33,143.00
Other non-current liabilities	-	-	-	2.00	-
Total equity	60,541.00	87,351.00	113,872.00	155,146.00	185,897.00

Annex 2: Income statement

Year ended 31 December (RMB Million)					
Items	2011	2012	2013	2014	2015
Revenue	50,772	59,091	86,774	107,871	124,203
Cost of sales	-26,469	-28,807	-49,438	-61,945	-73,836
Gross profit	24,303	30,284	37,336	45,926	50,367
Operating profit	33,897	47,125	47,347	49,112	56,439
Net profit	19,775	27,821	24,882	25,101	30,108
Other income and gains	1,966	2,162	4,142	3,206	3,681
Increase in fair value of investment properties	13,992	21,898	15,443	13,455	17,230
Selling and distribution costs	-2,829	-2,997	-4,298	-6,112	-5,801
Administrative expenses	-3,226	-3,950	-4,914	-6,690	-7,352
Other expenses	-309	-272	-353	-671	-1,664
Interest expenses	-3,056	-3,861	-5,855	-7,312	-7,400
Share of loss of an associate	-	-	-9	-2	-22
Profit before tax	30,841	43,264	41,492	41,800	49,039
Income tax expense	-11,066	-15,443	-16,610	-16,699	-18,931

Annex 3: Cash flow statement (part 1)

Year ended 31 December (RMB Million)					
Items	2,011	2,012	2,013	2,014	2,015
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax	30,841	43,264	41,492	41,800	49,039
Finance costs	3,056	3,861	5,855	7,132	7,400
Share-based payments	-	-	-	67	35
Share of loss of an associate	-	-	9	2	22
Interest income	-520	-360	-531	-546	-588
Depreciation of property, plant and equipment	517	881	1,054	1,314	1,907
Impairment of all receivables	16	40	51	66	53
Impairment of inventories	-	-	-	46	1,055
Amortisation of prepaid land lease payments	45	79	100	122	134
Amortisation of other intangible assets	3	10	17	97	228
Loss/(gain) on disposal of items of property, plant and equipment, net	1	-1	1	1	-1
Gain on bargain purchase	-	-	-75	-2	-1
Loss on disposal of investment properties	2	8	-	-	-
Gain on disposal of subsidiaries	-	-	-113	-1,112	-752
Gain on disposal of available-forsale investment	-	-	-	-40	-234
Remeasurement loss of equity interest in an associate	-	-	-	8	-
Increase in fair value of investment properties	-13,992	-21,898	-15,443	-13,455	-17,230
Fair value gain from derivative financial instruments, net	-	-	-	-1	-

Annex 3: Cash flow statement (part 2)

Year ended 31 December (RMB Million)					
Items	2,011	2,012	2,013	2,014	2,015
Increase in inventories	-17,359	-16,423	-24,121	-45,372	-18,038
(Increase)/decrease in trade and bills receivables	-111	-77	102	-704	345
(Increase)/decrease in prepayments, deposits and other receivables	-2,804	-4,850	-556	6,185	-1,328
Decrease in long-term receivables	1	-	-	1	-
Decrease/(increase) in restricted cash	-1,478	81	2,008	-1,425	190
Increase/(decrease) in trade and bills payables	12,553	4,639	8,966	11,419	10,770
Increase in other payables and accruals	36,239	14,989	5,063	18,691	11,874
Increase in government grants	-	325	431	-	-
Increase in deferred income	-	-	-	1,107	134
Cash generated from / (used in) operations	47,010	24,568	20,294	25,401	45,014
Interest received	520	360	531	546	588
Interest paid	-1,445	-1,888	-2,338	-	-
Corporate income tax and land appreciation tax paid	-10,203	-11,559	-11,680	-17,115	-13,692
Net cash flows from/(used in) operating activities	35,882	11,481	6,807	8,832	31,910

Annex 3: Cash flow statement (part 3)

Year ended 31 December (RMB Million)					
Items	2011	2012	2013	2014	2015
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and	-4,435	-3,255	-5,207	-7,533	-5,436
Additions to investment properties	-17,256	-19,550	-14,953	-31,768	-38,626
Additions to prepaid land lease payments	-1,271	-1,474	-772	-3,646	-695
Additions to other intangible assets	-38	-42	-90	-857	-148
Acquisitions of subsidiaries	-1,635	-226	-443	-3,317	-2,790
Proceeds from disposal of items of property, plant and equipment	20	13	119	57	9
Net proceeds from available-for-sale investments	-8	-	-27	-1,050	1,326
Proceeds from disposal of investment properties	9	-	-	-	-
Cash flows relating to disposal of subsidiaries	-	-	-1,083	2,628	-281
Additions to investment in an associate	-	-	-123	-476	-98
Interest paid	-778	-961	-1,204	-	-
Dividend received from a former subsidiary	-	-	-	263	-
Net cash flows used in investing activities	-25,392	-25,495	-23,783	-45,699	-46,739

Annex 3: Cash flow statement (part 4)

Year ended 31 December (RMB Million)					
Items	2011	2012	2013	2014	2015
CASH FLOWS FROM FINANCING ACTIVITIES					
Net proceeds from issue of bonds	-	-	3,614	3,662	25,000
New bank loans	39,478	57,470	80,745	129,259	49,941
Repayment of bank loa	-30,370	-33,848	-40,304	-84,180	-68,454
Interest and bank charge paid	-8,705	-3,194	-6,962	-12,304	-11,684
Dividends paid	-	-1,967	-1,999	-1,999	-4,301
Capital contributions from non-controlling interests	-	-	2,940	680	2,190
Issue of shares	-	-	-	23,755	1,993
Proceeds from disposal of non-controlling interests	-	90	-	-	-
Business combination under common control	-1,935	-	-	-	-
Acquisition of non-controlling interests	-	-	-130	-5,072	-9
Net cash flows (used in)/ from financing activities	-1,532	18,551	37,904	53,801	-5,324